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MSRB

FORM G-36 (OS) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. ☒ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 12/28/1998

(b) DATE SENT TO MSRB: 12/28/1998

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: \_\_\_\_\_

(b) DATE SENT TO MSRB: \_\_\_\_\_

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: ☒

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): ☐

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.

If more space is needed to list additional issues, please include on a separate sheet and check here: ☐

NAME OF COUNTY OF SAN DIEGO CERTIFICATES OF PARTICIPATION (1998 DOWNTOWN COURTHOUSE REFUNDING)

ISSUER EVIDENCING PROPORTIONATE UNDIVIDED INTERESTS OF THE OWNERS THEREOF IN BASE RENTAL

STATE: CA

DESCRIPTION COUNTY OF SAN DIEGO CERTIFICATES OF PARTICIPATION (1998 DOWNTOWN COURTHOUSE REFUNDING)

DATED

OF ISSUE EVIDENCING PROPORTIONATE UNDIVIDED INTERESTS OF THE OWNERS THEREOF IN BASE RENTAL

DATE: 01/01/1999

NAME OF

ISSUER

STATE:

DESCRIPTION

DATED

OF ISSUE

DATE:

NAME OF

ISSUER

STATE:

DESCRIPTION

DATED

OF ISSUE

DATE:

SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 05/01/2023

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 12/17/1998

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 01/07/1999

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING

UNDERWRITER Merrill Lynch & Co.

SEC REG.

NUMBER: 007691

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 73,115,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): \$

C. CHECK ALL THAT APPLY

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

3. ☐ This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
05/01/1999	797391PN3	05/01/2000	797391PP8	05/01/2001	797391PQ6
05/01/2002	797391PR4	05/01/2003	797391PS2	05/01/2004	797391PT0
05/01/2005	797391PU7	05/01/2006	797391PV5	05/01/2007	797391PW3
05/01/2008	797391PX1	05/01/2009	797391PY9	05/01/2010	797391PZ6
05/01/2011	797391QA0	05/01/2012	797391QB8	05/01/2013	797391QC6
05/01/2014	797391QD4	05/01/2015	797391QE2	05/01/2016	797391QH5
05/01/2023	797391QG7				

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: [ ]  
(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: \_\_\_\_\_

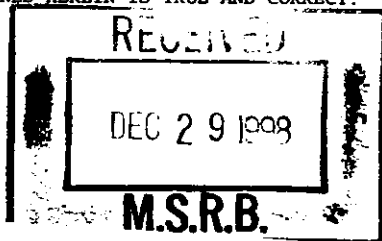
State the reason why such securities have not been assigned a "CUSIP-9": \_\_\_\_\_

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: [ ]

State the reason why such securities are ineligible for CUSIP number assignment: \_\_\_\_\_

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED AGREES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.



ON BEHA

CTION IV ABOVE

SIGNED:

NAME:

(PRINT

underwriter)

PHONE:

are most likely to

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etail instruction

ed or noted as in

IED FOR

form and two copies of the statement must be submitted to the MSRB within the meaning of rule G-36.

erials to MSRB, MSIL System, 1640 King Street, Suite 300, Alexandria, Virginia

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, the portion of each Base Rental Payment attributed to and constituting interest paid by the County under the Sublease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment attributable to and constituting such interest. See "Tax Matters" herein.

**\$73,115,000****COUNTY OF SAN DIEGO****Certificates of Participation****(1998 Downtown Courthouse Refunding)****Evidencing Proportionate Undivided Interests of the Owners****Thereof in Base Rental Payments to be Made by the****County of San Diego to the San Diego County Capital Asset Leasing Corporation****Dated: January 1, 1999****Due: May 1, as shown below**

The County of San Diego Certificates of Participation (1998 Downtown Courthouse Refunding) (the "Certificates") are being executed and delivered for the purpose of providing funds (i) to refund the outstanding San Diego Regional Building Authority Lease Revenue Bonds (Downtown Courthouse and Justice Facility Project) (the "Prior Obligations"), (ii) to fund a reserve fund in connection with the Certificates, and (iii) to pay certain costs of issuance incurred in connection with the Certificates. See "Plan of Refunding" and "Estimated Sources and Uses of Certificate Proceeds" herein.

Interest represented by the Certificates will be payable semiannually each May 1 and November 1, commencing on May 1, 1999. See "The Certificates" herein. The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be issuable in the principal amount of \$5,000 and any integral multiple thereof. Principal and interest payments represented by the Certificates are payable directly to DTC by State Street Bank and Trust Company, N.A., as trustee (the "Trustee") from Base Rental Payments (as defined herein). Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D — "Book-Entry System" herein.

The Certificates are subject to prepayment prior to maturity, as described herein.

The County covenants in the Sublease, dated as of January 1, 1999 (the "Sublease"), by and between the County and the San Diego County Capital Asset Leasing Corporation (the "Corporation") that, as long as the Property, as defined in the Sublease, is available for the County's use and possession, it will make all Base Rental Payments and other payments provided for therein, it will take such action as may be necessary to include all such payments in its operating budget, and it will make the necessary appropriations for such payments. Although the County covenants to maintain certain insurance policies under the Sublease, the County's obligation to make Base Rental Payments is subject to abatement in the event of damage or destruction to, or condemnation of or title defects to, the Property or a portion thereof. See "Security and Sources of Payment for the Certificates — Abatement" herein.

Payment of the principal and interest with respect to the Certificates when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" and APPENDIX F — "FORM OF CERTIFICATE INSURANCE POLICY" herein.

**Ambac**

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

**Maturity Schedule****\$53,965,000 Serial Certificates**

<b>Maturity (May 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield or Price</b>	<b>Maturity (May 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield or Price</b>
1999	\$2,675,000	4.000%	2.950%	2008	\$3,210,000	4.000%	4.080%
2000	2,345,000	4.000	3.300	2009	3,340,000	4.500	4.170
2001	2,440,000	4.000	3.500	2010	3,495,000	4.250	4.275
2002	2,540,000	4.000	3.600	2011	3,645,000	5.250	107.706
2003	2,640,000	4.000	3.700	2012	3,830,000	5.250	107.017
2004	2,745,000	4.000	3.800	2013	4,035,000	5.250	106.334
2005	2,855,000	4.000	3.900	2014	2,575,000	5.250	105.656
2006	2,970,000	4.000	3.950	2015	2,710,000	4.600	4.750
2007	3,085,000	4.000	4.000	2016	2,830,000	4.625	4.800

**\$19,150,000 4.500% Term Certificates due May 1, 2023 — Yield 4.940%**

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about January 7, 1999.

**Merrill Lynch & Co.****Morgan Stanley & Co. Incorporated****Ramirez & Co., Inc.**

Dated: December 17, 1998



## **COUNTY OF SAN DIEGO BOARD OF SUPERVISORS**

Greg Cox, Chairman	1 <sup>st</sup> District
Pam Slater, Vice-Chairwoman	3 <sup>rd</sup> District
Dianne Jacob	2 <sup>nd</sup> District
Ron Roberts	4 <sup>th</sup> District
Bill Horn	5 <sup>th</sup> District

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## **SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION BOARD MEMBERS**

Barry I. Newman, Chairman	
Hardy Kuykendall	Michel Anderson
Tim Considine	Morris Slayen

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## **COUNTY OFFICIALS**

Lawrence B. Prior III, Chief Administrative Officer  
Paul Boland, Treasurer – Tax Collector  
William J. Kelly, Chief Financial Officer/Auditor and Controller (Acting)  
John J. Sansone, County Counsel

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## **SPECIAL SERVICES**

### *Special Counsel*

Orrick, Herrington & Sutcliffe LLP  
Los Angeles, California

### *Financial Advisor*

Sutro & Co. Incorporated  
Los Angeles, California

### *Trustee*

State Street Bank and Trust Company, N.A.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

In connection with the offering of the Certificates, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

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#### APPENDICES

Appendix A -- Economic and Demographic Information Regarding the County of San Diego
Appendix B -- County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1998
Appendix C -- Summary of Principal Legal Documents
Appendix D -- Book-Entry System
Appendix E -- Form of Legal Opinion
Appendix F -- Form of Certificate Insurance Policy



**\$73,115,000**  
**COUNTY OF SAN DIEGO**  
**Certificates of Participation**  
**(1998 Downtown Courthouse Refunding)**  
**Evidencing Proportionate Undivided Interests of the Owners**  
**Thereof in Base Rental Payments to be Made by the**  
**County of San Diego to the San Diego County Capital Asset Leasing Corporation**

**INTRODUCTION**

*This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Sublease. See Appendix C - "Summary of Principal Legal Documents - Definitions."*

**General**

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (1998 Downtown Courthouse Refunding) in an aggregate principal amount of \$73,115,000 (the "Certificates"). The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of January 1, 1999 (the "Trust Agreement"), by and between the County of San Diego (the "County"), the San Diego County Capital Asset Leasing Corporation (the "Corporation"), and State Street Bank and Trust Company, N.A., as trustee (the "Trustee"). The County will lease the Property, as described below, to the Corporation pursuant to a Lease, dated as of January 1, 1999, by and between the County and the Corporation (the "Lease"). The County will lease the Property from the Corporation pursuant to a Sublease, dated as of January 1, 1999, by and between the County and the Corporation (the "Sublease").

The Certificates represent proportionate undivided interests of the registered owners thereof (the "Owners") in certain Base Rental Payments to be made by the County to the Corporation pursuant to the Sublease. See "Security and Sources of Payment for the Certificates -- Base Rental Payments." The Certificates are being delivered to provide funds to refund the outstanding principal amount of the \$71,630,000 San Diego Regional Building Authority Lease Revenue Bonds (Downtown Courthouse and Justice Facility Project) (the "Prior Obligations"), to fund the Reserve Fund for the Certificates, and to provide funds to pay certain costs of issuance incurred in connection with the Certificates. See "Plan of Refunding," and "Estimated Sources and Uses of Funds."

**Security and Source of Payment for the Certificates**

Under the Sublease, in consideration for the use and possession of the Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Sublease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The County has covenanted in the Sublease to take such action as may be

necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Sublease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Sublease. The County is required to make Base Rental Payments in accordance with the provisions of the Sublease. However, the County is not obligated to levy or pledge any form of taxation for the payment of Base Rental Payments for the Property, nor has the County levied or pledged any such tax. Pursuant to an Assignment Agreement, dated as of January 1, 1999 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates, all of its right, title and interest in and to the Sublease, including the right to receive Base Rental Payments under the Sublease. Pursuant to the Trust Agreement, the Trustee has agreed to distribute Base Rental Payments received from the County as principal and interest represented by the Certificates. See Appendix C - "Summary of Principal Legal Documents - Sublease" and " - Trust Agreement."

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund representing earned Base Rental Payments, moneys in the Certificate Reserve Fund and the Capitalized Interest Fund and proceeds, if any, of rental interruption insurance are available to pay Base Rental Payments. See "Security and Sources of Payment for the Certificates -- Base Rental Payments" and " - Abatement."

### **The Certificates**

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be issued in the principal amount of \$5,000 and any integral multiple thereof. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "The Certificates - General" and Appendix D - "Book-Entry System."

### **Certificate Insurance**

The County will secure the payment of principal and interest (but not any prepayment premium) represented by the Certificates with a municipal bond insurance policy to be issued simultaneously with the delivery of the Certificates by Ambac Assurance Corporation ("Ambac Assurance"). See "Certificate Insurance."

## **Tax Matters**

For a summary of the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, see "Tax Matters."

## **Continuing Disclosure**

The County has agreed to provide, or cause to be provided, by no later than 180 days after the end of the prior fiscal year to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

## **Miscellaneous**

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions. It is anticipated that the Certificates in definitive form will be available for delivery to DTC on or about January 7, 1999.

The description herein of the Trust Agreement, the Lease, the Sublease, the Escrow Agreement, the Continuing Disclosure Agreement and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C -- "Summary of Principal Legal Documents." Copies of the documents are on file and available for inspection at the Principal Corporate Trust Office of the Trustee at State Street Bank & Trust Company, N.A., 633 West Fifth Street, 12<sup>th</sup> Floor, Los Angeles, California 90071; Attention: Corporate Trust Department.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

## **PLAN OF REFUNDING**

The Certificates are being executed and delivered to provide funds to refund the Prior Obligations. A portion of the proceeds of the sale of the Certificates will be deposited into an escrow fund with respect to the Prior Obligations (the "Escrow Fund") pursuant to an Escrow Agreement dated as of January 1, 1999 (the "Escrow Agreement") by and between the County and U.S. Bank Trust National Association, as escrow bank (the "Escrow Bank"). Such amounts deposited into the Escrow Fund, together with amounts transferred from certain funds held under the indenture entered into with respect to the Prior Obligations (the "1993 Indenture"), will be invested and reinvested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (the "Defeasance Securities"). The Defeasance Securities will be scheduled to mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient to pay the principal of and interest on the Prior Obligations maturing from May 1, 1999 through May 1, 2003, and to pay on May 1, 2003 the redemption price of 102% and interest on the outstanding Prior Obligations maturing on and after May 1, 2004. The amounts due and payable as described in the previous sentence are collectively referred to hereinafter as the "Defeasance Obligation." All Defeasance Securities so deposited into the Escrow Fund will be irrevocably pledged to secure, when due, the payment of the principal of and interest and premium on the Prior Obligations.

## **DESCRIPTION OF THE PROPERTY**

The Property consists of a thirteen-story office building located on the Site, which is a 54,000 square foot parcel of land in the downtown area of the City of San Diego bounded by Broadway, Union, State and "C" Streets immediately adjacent to the existing Downtown San Diego Courthouse. The building is approximately 361,705 gross square feet and contains 507 parking spaces for use by the County and the general public. The Property is connected to the existing Downtown San Diego Courthouse by a pedestrian bridge. The Property provides space for sixteen courtrooms for the Superior Court and all of the divisions of the San Diego Office of the District Attorney, as well as office space for Superior Court administrative personnel, the Marshall and the San Diego Grand Jury.

## ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The Certificate proceeds (exclusive of accrued interest), and amounts held in connection with the Prior Obligations, are expected to be applied approximately as set forth below:

### SOURCES:

Principal Amount of Certificates	\$73,115,000
Existing Funds Under 1993 Indenture	<u>5,520,590</u>
TOTAL SOURCES	<u>\$78,635,590</u>

### USES:

Escrow Fund	\$70,779,000
Cost of Issuance Fund <sup>(1)</sup>	639,157
Certificate Reserve Fund	5,501,760
Original Issue Discount	106,025
Underwriters' Discount	623,458
Acquisition and Construction Fund	966,190
Administrative Expense Fund	<u>20,000</u>
TOTAL USES	<u>\$78,635,590</u>

<sup>(1)</sup> Includes municipal bond insurance premium, if any, rating fees, certain legal fees, printing costs and transfer fee.

## THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference.

### General

The Certificates evidence and represent undivided proportionate interests in the Base Rental Payments to be made by the County under the Sublease. The Certificates shall be prepared in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof. The Certificates are dated January 1, 1999, and each Certificate shall be payable with respect to interest on May 1 and November 1 of each year, commencing on May 1, 1999.

The Certificates will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. See Appendix D – "Book-Entry System."

### Prepayment

Optional Prepayment. The Certificates maturing on or before May 1, 2009, are not subject to optional prepayment prior to maturity. The Certificates maturing on or after May 1, 2010 are subject to optional prepayment prior to maturity on or after May 1, 2009 at the option of the County, in whole, or in

part, on any date, at the following prepayment prices (expressed as percentages of the principal amount of the Certificates to be prepaid), plus accrued but unpaid interest to the prepayment date:

<u>Prepayment Period</u> <u>(Dates inclusive)</u>	<u>Prepayment Price</u>
May 1, 2009 to April 30, 2010	101.0%
May 1, 2010 to April 30, 2011	100.5%
May 1, 2011 and thereafter	100.0%

Extraordinary Optional Prepayment. The Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Property or portions thereof, at a prepayment price equal to sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium. See Appendix C – “Summary of Principal Legal Documents -- Trust Agreement.”

Mandatory Sinking Fund Prepayment. The Certificates maturing on May 1, 2023 are subject to prepayment prior to their stated maturity, in part, from mandatory sinking account payments, on each May 1, commencing May 1, 2017, at the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium. The principal amount of such Certificates to be so prepaid and the dates therefor shall be as follows:

<u>Year</u> <u>(May 1)</u>	<u>Principal Amount</u>
2017	\$ 2,960,000
2018	3,095,000
2019	2,390,000
2020	2,500,000
2021	2,615,000
2022	2,735,000
2023	2,855,000 (maturity)

Selection of Certificates for Prepayment. Whenever less than all of the Outstanding Certificates are to be prepaid on any one date, other than for any Mandatory Sinking Account Payments which shall be made as set forth in a supplemental trust agreement, the County shall select the maturity of the Certificates or portions thereof to be prepaid, which may include portions of the Certificates maturing on May 1, 2023 (the “Term Certificates”) representing prepaid Base Rental Payments due immediately prior to the Mandatory Sinking Account Payments relating to such Term Certificates, and shall provide written notice to the Trustee at least 60 days prior to the prepayment date; provided, however, that if the remaining Base Rental Payments under the Sublease will not be reasonably level after such prepayment, the County shall deliver to the Trustee an opinion of counsel that the Sublease will continue to be a valid and binding obligation of the County after such prepayment. Such decision of the County shall be final and binding upon the Corporation, the Trustee and the Owners of the Certificates. Subject to the County’s direction, the Trustee shall select specific Certificates for prepayment by lot. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

Notice of Prepayment. The Trust Agreement provides that notice of prepayment is to be given by the Trustee by first-class mail, postage prepaid, at least 30 days but not more than 60 days before the date

fixed for prepayment to the Owners of Certificates designated for prepayment, in whole or in part, at their addresses appearing in the registration books of the Trustee as of the close of business on the day before such notice of prepayment is given. AS LONG AS THE CERTIFICATES REMAIN IN A BOOK-ENTRY SYSTEM, THE TRUSTEE WILL SEND SUCH NOTICE ONLY TO DTC. See Appendix D – “Book-Entry System.”

Neither the failure to receive any such notice nor any defect shall affect the sufficiency of the proceedings for the prepayment of Certificates. If notice of prepayment is given as provided in the Trust Agreement and sufficient moneys are held by the Trustee for the prepayment of all the Certificates, or portions thereof, to be prepaid, interest represented by such Certificates, or portions thereof, to be prepaid shall cease to accrue from and after the prepayment date.

Partial Prepayment. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof a new Certificate or Certificates representing the unpaid principal amount of the Certificate surrendered.

## **BOOK-ENTRY SYSTEM**

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D – “Book-Entry System.”

## **SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES**

### **Base Rental Payments**

General. The Certificates represent the aggregate principal components of the Base Rental Payments, each evidencing and representing a proportionate, undivided interest in the Base Rental Payments to be made by the County under the Sublease. The County is required under the Sublease to make Base Rental Payments from legally available funds. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and Additional Rental with respect to the Property in its operating budget for each fiscal year commencing after the date of the Sublease and to make the necessary appropriations for such Base Rental Payments and Additional Rental (except to the extent such payments are abated in accordance with the Sublease). In addition, to the extent permitted by law, the County covenants in the Sublease to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Sublease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County’s budget. Base Rental Payments are scheduled to be paid as set forth below. See “-- Base Rental Payment Schedule.” THE COUNTY HAS NOT PLEDGED THE FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The Trustee will not have any obligation or liability to the Owners to make payment of principal, premium, if any, or interest represented by the Certificates except from Base Rental Payments by the County under the Sublease or other amounts available to it under the Trust Agreement for such purposes; and the amounts of such payments shall be limited to amounts designated as principal and interest represented by the Certificates. Additional Rental payable by the County under the Sublease includes amounts sufficient to pay certain taxes and assessments and insurance premiums, and certain administrative costs.

Subject to the provisions of the Sublease relating to abatement more particularly described below, the Sublease provides that the obligation of the County to make Base Rental Payments and Additional Rental shall be absolute and unconditional and such Base Rental Payments and Additional Rental will not be subject to set-off or counterclaim. The Sublease provides that the covenants of the County thereunder are deemed to be duties imposed by law, and it further provides that it will be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements of the County contained in the Sublease. The Sublease provides that the County shall pay Base Rental Payments from legally available funds.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - SUBLEASE - RENTAL PAYMENTS - *RENTAL ABATEMENT*."

Base Rental Payments Schedule. The Sublease requires that Base Rental Payments be made to the Trustee, as assignee of the Corporation, on April 15, 1999 and annually on each July 5, thereafter, through the term of the Sublease. (The April 15, 1999 Base Rental Payment is intended to fund the May 1, 1999 payment due under the Certificates; the subsequent July 5<sup>th</sup> Base Rental Payments in each Fiscal Year are intended to fund the November 1 and May 1 payments due under the Certificates for such Fiscal Years). Pursuant to the Trust Agreement and the Sublease, the Base Rental Payments will be deposited in the Base Rental Payment Fund and applied to principal and interest payments as they become due. A table of aggregate annual Base Rental Payments with respect to the Certificates is set forth below:



<u>Year</u> <u>(July 5)<sup>(1)</sup></u>	<u>Annual Total</u> <u>(Due July 5)<sup>(1)</sup></u>
1999 <sup>(2)</sup>	\$3,760,265.83
1999	5,493,797.50
2000	5,494,997.50
2001	5,497,397.50
2002	5,495,797.50
2003	5,495,197.50
2004	5,495,397.50
2005	5,496,197.50
2006	5,492,397.50
2007	5,493,997.50
2008	5,495,597.50
2009	5,500,297.50
2010	5,501,760.00
2011	5,495,397.50
2012	5,499,322.50
2013	3,827,485.00
2014	3,827,297.50
2015	3,822,637.50
2016	3,821,750.00
2017	3,823,550.00
2018	2,979,275.00
2019	2,981,725.00
2020	2,984,225.00
2021	2,986,550.00
2022	2,983,475.00

(1) Or, if July 5 in any year is not a Business Day, then such payment is due on the next Business Day.

(2) April 15, 1999 payment.

The County may enter into a Debt Service Forward Sale Agreement with a financial institution pursuant to which Base Rental Payments will be invested in direct obligations of, or obligations unconditionally guaranteed by, the United States of America or obligations secured or guaranteed by certain instrumentalities or agencies of the United States of America.

In accordance with the Sublease, the County is obligated to make Base Rental Payments scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates, and certain other payments designated as Additional Rental, as set forth in the Sublease. The County is required to make Base Rental Payments as directed in the Sublease. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Sublease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Sublease. However, the County is not obligated to levy or pledge any form of taxation for the payment of rental for the Property, nor has the County levied or pledged any such tax.

## **Certificate Reserve Fund**

The Certificate Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement.

The Certificate Reserve Fund will be funded from proceeds available under the old indenture and the proceeds of the sale of the Certificates in the amount of the Certificate Reserve Fund Requirement. If the County reduces the amount of Certificates outstanding through optional prepayment, then amounts in the Certificate Reserve Fund may decrease proportionately. Amounts in the Certificate Reserve Fund are to be used only to pay the interest and principal due with respect to the Certificates and any Additional Certificates to the extent that amounts in the Interest Fund and the Principal Fund are insufficient therefor or to make the final payment on the Certificates and any Additional Certificates; *provided* that amounts in the Certificate Reserve Fund may be invested as permitted under the Trust Agreement. Base Rental Payments made by the County and not needed to pay past due interest and principal shall be deposited in the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement. See Appendix C -- "Summary of Principal Legal Documents -- Trust Agreement."

The Certificate Reserve Fund Requirement may at the option of the County be satisfied by crediting to the Certificate Reserve Fund, a letter of credit, line of credit, surety bond, bond insurance policy or similar facility or any combination thereof, which in the aggregate make funds available in the Bond Reserve Fund in an amount equal to the Certificate Reserve Fund Requirement. See Appendix C -- "Summary of Principal Legal Documents -- Trust Agreement."

## **Insurance**

The Sublease provides that the County will secure and maintain or cause to be secured and maintained throughout the term of the Sublease for the Property insurance against the risks in the amounts set forth in the Sublease. For additional information regarding the County's risk management programs, see "County Financial Information -- Risk Management," " - *Insurance Coverage Respecting Sublease Obligations and Long-Term Loans*," and see Appendix C -- "Summary of Principal Legal Documents -- Sublease -- *Certain Covenants*."

## **Abatement**

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Certificate Reserve Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Sublease shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Sublease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Property.

### **Substitution**

The County may amend the Sublease and the Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property upon compliance with all of the conditions set forth in the Sublease. After a substitution or removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold created under the Sublease and under the Lease. See Appendix C – "Summary of Principal Legal Documents - Sublease - Property - *Substitution or Removal of Property*."

### **Additional Certificates**

In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; *provided* that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Sublease providing for an increase in the Base Rental Payments to be made thereunder subject to the limitations set forth therein. See Appendix C – "Summary of Principal Legal Documents -- Trust Agreement -- *Additional Certificates*."

## **CERTIFICATE OF INSURANCE**

### **Payment Pursuant to Municipal Bond Insurance Policy**

Ambac Assurance has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Certificates effective as of the date of delivery of the Certificates. Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal and interest with respect to the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory prepayment and insufficient funds are

available for prepayment of all outstanding Certificates, Ambac Assurance will remain obligated to pay principal and interest with respect to outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund prepayment dates.

In the event the Trustee has notice that any payment of principal of or interest on a Certificate which has become Due for Payment and which is made to a Owner by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does not cover:

1. Payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. Payment of any redemption, prepayment or acceleration premium.
3. Non payment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Owner entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering Owner's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Colombia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$3,200,000,000 (unaudited) and statutory capital of approximately \$1,815,000,000 (unaudited) as of September 30, 1998. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc., have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not effect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac

Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Certificates.

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "CERTIFICATE INSURANCE."

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17<sup>th</sup> Floor, New York, New York, 10004 and (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and filed on March 31, 1998;
- (2) The Company's Current Report on Form 8-K dated March 27, 1998 and filed on March 27, 1998;
- (3) The Company's Amendment to its Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997 and filed on March 31, 1998;
- (4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1998 and filed on May 15, 1998;
- (5) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1998 and filed on August 14, 1998; and

- (6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 1998 and filed on November 13, 1998.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

## **THE COUNTY**

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer/Auditor and Controller. Elected officials include the Assessor, Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: regional services such as courts, probation, medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement by contract and libraries by city's request to incorporated cities; and infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

For certain financial information regarding the County, see "County Financial Information" below. For certain financial information regarding the County's solid waste system, see "County Solid Waste System" herein. For certain financial information regarding the County's pooled investment portfolio, see "San Diego County Investment Pool" herein. For certain economic and demographic information with respect to the County, see Appendix A -- "Economic and Demographic Information Regarding the County of San Diego" and Appendix B -- "The County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 1998."

## **COUNTY FINANCIAL INFORMATION**

The following is a description of the County's budget process, current budget, historical budget information, changes in fund balance, balance sheets, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

## **Ad Valorem Property Taxation**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

The following tables describe the assessed valuation of property within the County subject to taxation for fiscal year 1989-90 through fiscal year 1998-99, and the tax collections in such years:

**ASSESSED VALUATION OF PROPERTY  
SUBJECT TO AD VALOREM TAXATION  
Fiscal Years 1989-90 through 1998-99  
(in Thousands)**

<b>Fiscal Year</b>	<b>Land</b>	<b>Improvements</b>	<b>Personal Property</b>	<b>Gross Assessed Valuation</b>	<b>Exemption</b>	<b>Net Assessed Valuation for Tax Purposes</b>
1989-90	\$ 43,595,375	\$ 67,523,334	\$ 5,782,822	\$ 116,901,531	\$ 2,176,639	\$ 114,724,892
1990-91	49,581,930	75,596,700	6,796,311	131,974,941	2,428,532	129,546,409
1991-92	54,203,463	80,619,713	6,833,127	141,656,303	2,605,200	139,051,103
1992-93	56,942,666	83,395,166	7,050,615	147,388,447	3,011,676	144,376,771
1993-94	57,882,778	84,631,884	7,028,170	149,542,832	3,521,396	146,021,436
1994-95	58,065,632	85,628,280	7,175,750	150,869,661	3,683,231	147,186,431
1995-96	58,469,323	86,585,240	7,536,344	152,590,907	3,826,612	148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,216	3,799,409	149,111,807
1997-98	59,965,573	87,226,802	10,222,561	157,414,936	4,512,558	152,902,378
1998-99	63,633,576	94,172,901	10,557,494	168,383,971	4,655,382	163,728,589

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 1997-98.

**TEN LARGEST TAXPAYERS  
Fiscal Year 1997-98**

<b>Property Owners</b>	<b>Business Area</b>	<b>Approximate Tax</b>
San Diego Gas & Electric Co.	Gas & Electric Utility	\$33,503,568
Southern California Edison Co.	Electric Utility	19,780,839
Pacific Bell	Telephone Company	17,324,443
Equitable Life Assurance Society	Real Estate	4,798,688
Qualcomm Inc.	Telecommunications	4,537,849
Pardee Construction	Real Estate	2,981,249
L-O Coronado Holding II, Inc.	Real Estate	2,788,123
Spieker Properties LP	Real Estate	2,714,277
Aviara Resort Associates Limited	Real Estate	2,682,533
Hewlett-Packard Co.	Telecommunications	2,661,900

Source: County of San Diego Chief Financial Officer/Auditor and Controller.



On September 24, 1996, AB 1890 (Chapter 854) was enacted into law. AB 1890 provides for the accelerated recovery of transition costs that may become uneconomic as a result of the transition of the State electric utility industry to a more competitive market structure. One of the significant costs subject to accelerated recovery is the investment in nuclear power generation facilities. The accelerated recovery of the investment in nuclear generation facilities under AB 1890 will be accomplished by recognizing accelerated depreciation as of January 1, 1999. For the lien date January 1, 1999, the State Board of Equalization will set the market value of the unitary property of San Diego Gas & Electric Company ("SDG&E") and Southern California Edison Company ("Edison,") which jointly own 95% of the San Onofre Nuclear Generating Station (SONGS), without respect to the accelerated depreciation and deferred tax effect of AB 1890. Commencing with fiscal year 2001-02, it is unclear what market values will be set for SONGS under AB 1890.

### Secured Tax Rolls Statistics

The following table below sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last eight fiscal years, including the fiscal year ending on June 30, 1998 and a projection for the fiscal year ending on June 30, 1999. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each fiscal year shown, and the percentage of the taxes levied for each year that were uncollected as of the fiscal year end.

#### SECURED TAX ROLL STATISTICS Fiscal Years 1991-92 through 1998-99<sup>(1)</sup>

<u>Fiscal Year</u>	<u>Total Bills</u>	<u>Total Assessed Value</u>	<u>Total Tax Amount</u> <sup>(1)</sup>	<u>Delinquent Tax Bills</u>	<u>Delinquent Tax Amount</u> <sup>(2)</sup>	<u>Delinquent Tax Amount as Percent of Tax Amount</u>
1991-92	777,424	\$135,645,614,393	\$1,484,611,184	39,705	\$73,738,898	5.00%
1992-93	786,153	141,179,930,288	1,583,463,240	42,535	82,645,920	5.22
1993-94	795,216	143,166,754,405	1,594,493,514	36,126	69,797,873	4.38
1994-95	802,687	144,207,931,163	1,608,693,370	31,450	56,947,574	3.54
1995-96	805,698	145,681,809,785	1,623,328,413	30,053	46,680,249	2.88
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.80
1998-99 <sup>(3)</sup>	831,497	160,102,387,349	1,795,040,205	29,300	36,000,000	2.00

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

<sup>(1)</sup> Amount excludes penalties.

<sup>(2)</sup> Original Delinquent Tax Amounts represent the dollar value of tax due in the year shown that had not been collected as of June 30 of that year.

<sup>(3)</sup> Total Bills and Total Assessed Value figures are actual, remaining columns are estimated.

### Payment Dates and Liens

Property taxes on the secured roll are due the County in two installments, on November 1st and February 1st of each fiscal year, and if unpaid become delinquent on December 10th and April 10th, respectively. The penalty for delinquency is 10% of the delinquent taxes (the "Default Penalty"). Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted if not paid by June 30th of the fiscal year. Such property may thereafter be redeemed by payment of (i) the taxes owed, (ii) a penalty

of 1-1/2% per month from July 1 to the time of redemption (the "Redemption Penalty"), (iii) the Default Penalty, (iv) a cost charge of \$10 and (v) a redemption fee of \$15 per parcel, from which the State receives \$5 (collectively, the "Redemption Amount"). Properties may be redeemed under an installment plan by paying current taxes plus 20% of the Redemption Amount five times over a period of four years. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. The Redemption Penalty continues to accrue at 1-1/2% per month on the Redemption Amount during the period of the installment plan. If taxes are unpaid for a period of five years or more after a parcel first becomes tax-defaulted (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property is subject to sale by the County Treasurer-Tax Collector.

Before the 1990-91 fiscal year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 1997-98 fiscal year, the County collected approximately \$4,415,577 in such fees from cities, special districts and redevelopment agencies.

### **Assessed Valuations**

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported in compliance with the requirements of Proposition 13. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Limitations on Tax Revenues."

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. Prior to 1992, assessment appeals filings in the County averaged less than 2,000 petitions annually. From 1992 to 1997 the filings averaged 22,000 per year. With the turnaround in real estate values in 1998, appeals declined, but the assessor was still required to process over 10,000 appeals. The County projects that the volume of current assessment appeals in 1998 will be sustained due to fluctuations in the real estate market.

As of January 1, 1999, the balance of pending applications was 4,752. This included current and prior years' filings. The County has four Assessment Appeals Boards who meet three days per week to process the applications. Waivers extending the statutory two-year processing deadline are obtained by the County for applications approaching this time limit.

### **The Teeter Plan**

Beginning fiscal year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County's general fund receives the

full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "1995 Series A Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "1995 Series B Notes," and together with the 1995 Series A Notes, the "Commercial Paper Notes"). The 1995 Series A Notes were delivered in a principal amount of \$25,900,000, which principal amount was not in excess of remaining uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the 1995 Series A Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all fiscal years of the County ended on and prior to June 30, 1993 (the "Initial Debenture"), with remaining amounts to pay costs in connection with the issuance of the 1995 Series A Notes. The 1995 Series B Notes were initially delivered in a principal amount of \$42,400,000, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the 1995 Series B Notes were applied to refund the remaining Debentures attributable to the fiscal years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the issuance of the 1995 Series B Notes. On June 26, 1996, the County issued additional Series B Notes in a principal amount of \$37,500,000. Proceeds received from the initial sale of such additional Series B Notes were applied first to refund the Demand Obligation attributable to the fiscal year ending June 30, 1996 and to pay costs in connection with the issuance of such Series B Notes. On June 25, 1997, the County issued additional Series B Notes in a principal amount of \$32,750,000. Proceeds received from the initial sale of Series B Notes were applied first to refund the Demand Obligation attributable to the fiscal year ending June 30, 1998 and to pay costs in connection with the issuance of such Series B Notes. On June 22, 1998, the County issued additional Series B Notes in a principal amount of \$34,000,000. Proceeds received from the initial sale of the Series B Notes were applied first to refund the Demand Obligation attributable to the fiscal year ending June 30, 1999 and to pay costs in connection with the issuance of such Series B Notes. As of the date of sale, \$40,761,000 aggregate principal amount of Series B1 Notes were outstanding.

The Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior to the County's Commercial Paper Notes in right of payment from the General Fund. In addition, the Commercial Paper Notes, Series A have a first priority lien on Series A Taxes and certain amounts deposited in the Series A Pledge Fund held by the Fiscal Agent. "Series A Taxes" means (i) the right to collect delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to Section 4701 *et seq.* of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, and (ii) all amounts received by the County upon the sale of property to recover such delinquent property taxes or assessments, and (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties (as specified in Section 4103 of the Revenue and Taxation Code and (iv)

the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an event of default under the resolution securing the Commercial Paper Notes or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series A Taxes do not include Series B Taxes or Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the fiscal years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to Section 4705 of the Law, and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Other Taxes do not include Series A Taxes or Series B Taxes.

The Commercial Paper Notes, Series B have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the fiscal years ended June 30, 1994, 1995, 1996, 1997 and the fiscal year ending June 30, 1998 and such other fiscal years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the Law, and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Series A Taxes or Other Taxes.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund will be fully funded, in accordance with the County's election to be governed by the second alternative, at \$6.5 million as of June 30, 1998. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

## Financial Statements

The following financial statements were developed from the Chief Financial Officer/Auditor and Controller's "Annual Financial Report" and other official public records. A copy of the general purpose financial statements of the County for the year ended June 30, 1998 is attached to this Official Statement as Appendix B. The following statements are for informational purposes only and do not constitute the complete financial statements of the County.

### GENERAL FUND COMBINED BALANCE SHEET At June 30, 1998 Compared to June 30, 1997 (In Thousands)

ASSETS	1997	1998
Cash	\$ 8,614	\$ 52,365
Cash with Fiscal Agent <sup>(1)</sup>	214,551	231,746
Taxes Receivable	219	242
Accounts Receivable	126,611	160,615
Loans Receivable	8,313	1,397
Due from Other Funds <sup>(1)(2)</sup>	95,245	103,600
Deposits with Others	--	--
Inventories-Materials and Supplies	<u>10,722</u>	<u>10,039</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 464,275</u></b>	<b><u>\$560,004</u></b>
 <b>LIABILITIES AND EQUITIES</b>		
Accounts Payable	\$ 26,407	\$ 25,481
Accrued Payroll	18,441	19,706
Amount Due for Tax and Revenue Anticipation Notes <sup>(1)</sup>	212,297	227,531
Due to Other Funds	45,561	32,459
Deferred Revenue	39,719	33,742
Fund Balance-Unavailable Encumbrances	33,290	47,916
Fund Balance-Unavailable Reserves	24,289	17,316
Fund Balance-Available	64,271	155,853
<b>TOTAL LIABILITIES AND EQUITIES</b>	<b><u>\$ 464,275</u></b>	<b><u>\$560,004</u></b>

Source: County of San Diego, Comprehensive Financial Report.

<sup>(1)</sup> Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts. In the prior year, pledged amounts were maintained in a separate pledge fund of the County.

<sup>(2)</sup> Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

**GENERAL FUND**  
**COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES**  
**For Fiscal Years 1993-94 Through 1997-98**  
**(In Thousands)**

SOURCES OF FUNDS	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Fund Balances					
Reserved for Encumbrances	\$ 23,652	\$ 42,886	\$ 54,379	\$ 59,492	\$ 33,290
Unreserved	8,642	96,876	43,323	50,678	64,271
Taxes	332,680	250,283	275,298	270,881	284,970
Licenses, Permits and Franchises	19,530	20,148	20,311	20,958	21,034
Fines, Forfeitures and Penalties	11,044	11,547	16,248	21,100	21,849
Use of Money and Property	36,804	18,718	17,093	14,289	26,236
Aid from Other Gov't Agencies	1,357,844	1,404,950	1,407,391	1,387,493	1,344,981
Charges for Current Services	140,586	137,423	153,101	152,129	174,468
Other Revenue	16,648	13,277	13,719	24,778	15,966
Sale of Fixed Assets	166	380	--	--	--
Operating Transfers-in <sup>(1)</sup>	2,503	2,140	37,749	40,951	25,583
Issuance of Lease Purchases <sup>(2)</sup>	74,214	7,018	1,849	6,653	4,226
Long Term Debt Proceeds	<u>430,430</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL SOURCES	<u>\$2,454,743</u>	<u>\$2,005,646</u>	<u>\$2,040,461</u>	<u>\$2,049,402</u>	<u>\$2,016,874</u>
USES OF FUNDS					
General	\$ 164,076	\$ 164,567	\$ 171,373	\$ 184,397	181,031
Public Protection	432,685	445,092	476,290	500,763	535,863
Public Ways and Facilities	980	1,383	1,335	1,181	1,458
Health and Sanitation	234,489	240,995	249,569	253,828	281,363
Public Assistance	932,497	958,812	943,789	865,278	759,389
Education	213	222	238	228	270
Recreation and Cultural Services	7,081	6,005	6,222	6,281	8,094
Capital Outlay	74,214	7,018	1,849	6,653	4,226
Debt Service	14,441	18,252	16,866	15,196	14,249
Other	1,103	--	--	-0-	-0-
Operating Transfers-out <sup>(1)</sup>	<u>453,182</u>	<u>54,181</u>	<u>53,730</u>	<u>114,547</u>	<u>85,367</u>
TOTAL USES	<u>\$2,314,961</u>	<u>\$1,896,527</u>	<u>\$1,921,261</u>	<u>\$1,948,352</u>	<u>1,871,310</u>

Source: County of San Diego, Chief Financial Officer/Auditor and Controller.

<sup>(1)</sup> "Operating Transfers-in" consist primarily of funds transferred from the Accumulated Capital Outlay Fund, the Sheriff Asset Forfeiture Fund, Parkland Dedication Funds, and, beginning in Fiscal Year 1995-96, the Trial Court Operations Special Revenue Fund. "Operating Transfers-out" consist primarily of transfers to the Accumulated Capital Outlay Fund. For Fiscal Year 1993-94, "Operating Transfers-out" included \$430.4 million in Pension Obligation Bond proceeds transferred to the Pension Trust Fund.

<sup>(2)</sup> Excludes refundings.

## **1997-98 Fiscal Year Financial Summary**

The County closed books for Fiscal Year 1997-98 on July 31, 1998, reflecting a significant improvement in Group resources and Countywide resources. Based on year-end (unaudited) reports, the County's General Fund ended the Fiscal Year with a surplus of about \$64.5 million. In addition, a \$60 million General reserve (\$50 million) and Operating reserves (\$10 million) were established during 1997-98 as a result of the County's improved fiscal status. Of the \$64.5 million, \$50.9 million is the result of the Groups/Departments operations due to reduced costs and/or improvements of the revenue base. The \$14.5 million improvement in Countrywide resources is directly attributed to the tremendous improvement in the State and local economy. Significant positive components include (1) increased Statewide vehicle license fee revenues of about 2.4% or \$3 million, above budgeted levels, reflecting continuing improvement in automobile sales; (2) a net favorable surplus amount of approximately \$1.3 million due to higher interest earnings; (3) overrealized \$3.5 million Supplemental Property Taxes due to high real estate activity; (4) overrealized Sales Tax by \$2.0 million; (5) a significant increase in the Real Property Transfer Tax revenues of \$4.5 million due to increased real estate activity. Finally, receipt of net proceeds in the amount of approximately \$157 million from the sale of the County's Solid Waste System enabled to the County to establish an Environmental Trust Fund of \$101 million for the various costs associated with continuing ownership of the retained facilities, such as closure and postclosure costs, as well as costs relating to environmental remediation.

## **1998-99 Fiscal Year Preliminary Financial Outlook**

The County's final budget for fiscal year 1998-99 ("Adopted Budget") was approved by the County Board of Supervisors on July 21, 1998. The Adopted Budget is approximately \$63.7 million less than the 1997-98 Adopted Budget. Key assumptions of the adopted 1998-99 spending plan include the following: (1) growth of about 4.1% in the gross regional product; (2) the San Diego County unemployment rate will continue to fall below both California and national levels; (3) a 3-year salary and benefit increase was negotiated for almost all county bargaining units; (4) total general revenues are estimated to grow by about \$25 million, the highest since 1989; (5) other growth areas are 5.5% (\$11.4 million) for property taxes, 4.5% (\$5 million) for vehicle license fee revenues, and 4.0% (\$1 million) for sales tax revenues; (6) reduction of projected public assistance costs of about 13.4% (\$150 million) due to changes in Federal and State welfare provisions that reflect decreased caseload and reduced assistance benefits; and (7) the Country's general reserve (\$50 million) and contingency reserves (\$10 million), both for economic uncertainties and unforeseen catastrophic situations. In addition, \$17.9 in Group Department Reserves was also included in the budget; another approximate \$35 million in unanticipated fund balance from 1997-98 operations is also available as a potential reserve. The Adopted Budget represents the completion of a two-year process to achieve a "Structurally Balanced" budget, (i.e. on-going expenditures are funded by on-going revenue). A total of \$12.1 million in adjustments was completed in the first year of the plan. An additional \$13.9 million was incorporated into the 1998-99 budget for a total adjustment of \$26 million.

## **Approved Vehicle License Fee Reduction**

On August 20, 1998, the Governor approved a 25% reduction in Vehicle License Fee (VLF), beginning on January 1, 1999. The VLF is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars and taxicabs are all subject to the VLF. The VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of the VLF revenues can be used for any purpose, with the remaining funds used to pay for "realignment" Health and Social Services program. In 1998-99, VLF revenues in the State

are expected to total over \$3.9 billion. This permanent reduction was backfilled by State general Tax revenue, so that counties and cities see no reduction in revenues.

The County's Adopted budget for Fiscal Year ending June 1999, anticipates \$185.5 million in VLF. VLF represent the second largest source of general purpose revenues (after Property Taxes) over 25%. The County utilizes the general purpose revenues (approximately \$126 million) to fund various County-wide programs, and use the "realignment" revenues (\$59 million) to fund health, mental health, medical and social service programs. As was indicated above, the State's General Fund will pay local governments for lost VLF revenues on a dollar per dollar matching basis, from State general fund revenues. The repayment funds will be continuous appropriations, however, is not a firm guarantee of a continuing replacement. Thus, in future years there could be a loss by local governments of state revenues to offset lost VLF fees.

### **Year 2000 Computer Compliance**

Many computer systems and applications currently use two digits to define the applicable year. As a result, date-sensitive systems may recognize year 2000 as 1900 or not at all, which could cause miscalculations or system failures. The Chief Information Officer of the County has reported to the County's Board of Supervisors that sufficient appropriations have been made and are expected to be made for the County to correctly identify and modify the necessary internal and external computer resources to replace, upgrade or modify all significant systems which do not correctly identify the year 2000. The County anticipates that all internal systems will be year-2000 compliant by June 1, 1999, and that all external interfaces (i.e. with the State Board of Equalization) will be properly modified during 1999. In addition, the County is reviewing its vendors, suppliers and other third parties with whom it has substantial financial relationships to determine whether any such parties expect to experience Y2K problems with consequences to the County. The County is not presently aware of any substantial problem with these entities which would have a material adverse effect on the County. However, there can be no assurance that the systems or products of other companies on which the County's systems rely will be timely converted or that any such failure to convert by a vendor, customer or another company would not have an adverse effect on the County's systems.

### **Annual Budget**

The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeits and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditure and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other.

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year. The Board of Supervisors may, by resolution, extend the date of adoption of a balanced budget to October 2. The Board of Supervisors adopted the County's fiscal year 1998-99 budget on July 21, 1998. The Board of Supervisors is further required to set tax rates by September 1 in accordance with Article XIII A of the California Constitution. See "County Financial Information – Ad Valorem Property Taxation" herein.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. No increase in the aggregate appropriations can be made after the final budget has been adopted unless the County has received written certification of additional revenue from the sources of such revenue.



In order to ensure that the budget remains in balance throughout the fiscal year, quarterly reviews are made covering actual receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to reduce appropriations. Appropriation reductions would be achieved through a combination of hiring freezes, employee layoffs, and freezes on the purchase of equipment, services and supplies. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer/Auditor and Controller is responsible for monitoring and reporting expenditures within budgeted appropriations.

The following table shows the County's adopted General Fund budget for fiscal years 1997-98 and 1998-99.

**COUNTY OF SAN DIEGO**  
**ADOPTED GENERAL FUND BUDGET**  
**Fiscal Year 1997-98, compared to Fiscal Year 1998-99**  
**(In Thousands)**

	Adopted <u>Budget 1997-98</u>	Adopted <u>Budget 1998-99</u> <sup>(1)</sup>
<b>APPROPRIATIONS</b>		
Public Safety	\$ 547,237	\$ 591,129
Health & Human Services	1,148,123	995,294
Land Use & Environment	48,728	70,295
Community Services	78,786	83,557
Finance and General Government and Other	165,514	176,503
Appropriation for Contingencies and Designations	<u>18,672</u>	<u>60,000</u>
Total Appropriations	<u>\$2,007,060</u>	<u>\$1,976,778</u>
<b>REVENUES</b>		
Current Property Taxes	\$ 221,650	\$ 232,150
Taxes other than Current Property Taxes	50,422	55,472
Licenses, Permits & Franchises	20,795	21,245
Fines & Forfeitures	14,210	26,243
Use of Money & Property	13,111	13,969
Aid from other Government Agencies	1,431,789	1,321,193
Charges for Current Services	155,985	169,241
Other Revenues	57,024	46,981
Total Revenues	<u>\$1,964,986</u>	<u>\$1,886,494</u>
Estimated Fund Balance Available	<u>42,074</u>	<u>90,284</u>
Total Available Financing	<u>\$2,007,060</u>	<u>\$1,976,778</u>

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

<sup>(1)</sup> As adopted by the County Board of Supervisors on July 21, 1998.

## **Trial Court Funding**

The State legislature recently enacted a bill to reform funding for local trial courts ("AB 233"). AB 233, which became effective January 1, 1997, transfers responsibility from counties to the State for local trial court funding commencing in the 1997-98 fiscal year. Under such legislation, the State will assume a greater degree of responsibility for trial court operations costs in fiscal year 1997-1998. The State of California Department of Finance has estimated a net positive fiscal impact on the County in the amount of \$26 million in fiscal year 1998-99 as a result of AB 233.

The County will continue to be obligated to provide facilities for all judicial officers and support positions created prior to July 1, 1996, including officers and positions which replace such officers and positions created prior to July 1, 1996. However, under AB 233 the County is not required to finance any new expenditures with respect to capital needs of judicial officers and support positions created during the period from January 1, 1999 to June 30, 2001. All of the judicial officer and support positions located at the Leased Premises were created prior to July 1, 1996. Therefore, the County remains obligated to fund capital expenditures with respect to capital needs of existing judicial officers and support positions located in the Leased Premises.

## **Retirement Program**

The employees retirement system of the County, established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all permanent employees. The plan is integrated with the federal Social Security System. For fiscal year 1996-97, contributions to the retirement fund amounted to approximately \$61.6 million by the County and \$6.2 million by employee members. There were 16,635 active members, 7,692 retired members and 1,929 deferred members as of June 30, 1997.

The retirement system operates on a fiscal year basis and has an actuarial valuation prepared annually. At June 30, 1997, the date of the most recent actuarial valuation report, the actuarial accrued liability was approximately \$2.5 billion and was 108% funded. The County anticipates receipt of a credit to its general fund of approximately \$25 million as a result of overfunding of its actuarial liability, such credit to be realized over the next five years commencing with fiscal year 1998-99. The County's method for computing actual contributions (level percentages) results in the employer contribution remaining approximately level from generation to generation as a percentage of the active employee payroll. The actuarially computed liabilities are based upon assumptions which make provisions for future salary increases resulting from inflationary factors. The level of funding available for the retirement system is a function of a number of factors, including duration of employment, assumptions regarding costs of living and the performance of the stock market. Additional costs resulting from retiree health insurance and death benefits are paid on a current basis from surplus investment earnings in the fund.

In a recent decision in the case of *Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association* (the "*Ventura Case*"), the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees is included in the definition of compensation within the meaning of the Retirement Law. Consequently, the County may be required to increase the amount of payments to the Association for the benefit of its employees in the current fiscal year and future fiscal years. The California Supreme Court did not determine whether its holding in the *Ventura Case* was to be applied retroactively. In the event that the *Ventura Case* requires that benefits be increased for past services, the County's pension benefit obligation may be increased. As a result, the County may be required to make payments to the Association over a period of

time to pay for these additional benefits. The County estimates, based upon a preliminary review of the *Ventura Case*, that the potential financial impact of a prospective application of the *Ventura Case* is approximately \$5,000,000. At June 30, 1997, the actuarial accrued liability was approximately \$2.5 billion and was 108% funded. Accordingly, the County does not expect any prospective application of the *Ventura Case* to adversely affect the County's ability to pay principal of and interest with respect to the Certificates as and when due. The County has not analyzed the potential financial impact if the *Ventura Case* is applied retroactively.

In July, 1998 a lawsuit was filed against the San Diego County Employees Retirement Association and the County (the "Stapel Case") to have terminal vacation payments and other payments included as part of final compensation for purposes of computing retirement benefits. The plaintiffs also seek to have the *Ventura Case* apply to retirement payments made prior to October 1, 1997. The County is aware that a number of lawsuits also seeking application and expansion of the *Ventura Case* have been filed throughout the State and that these cases may be consolidated in Sacramento. An adverse outcome in one or more of the consolidated cases filed against another County could have an adverse impact on the County's financial position. The County estimates, based upon a preliminary review of the Stapel Case, that the potential unfunded liability to the County, could range from \$50 million to, if the case is ultimately decided to extend retroactively, \$120,000,000.

Shown below are the County contributions for recent fiscal years and the level of contributions anticipated for fiscal year 1998-99.

**COUNTY OF SAN DIEGO  
EMPLOYER CONTRIBUTIONS TO RETIREMENT SYSTEM**

1988-89 .....	\$ 58,787,592
1989-90 .....	65,391,658
1990-91 .....	78,046,026
1991-92 .....	92,482,653
1992-93 .....	97,499,000
1993-94 .....	89,267,603
1994-95 .....	80,992,355
1995-96 <sup>(1)</sup> .....	103,692,355
1996-97 <sup>(1)</sup> .....	101,609,873
1997-98 <sup>(1)</sup> .....	107,254,394
1998-99 <sup>(1)(2)</sup> .....	71,127,000

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

<sup>(1)</sup> Includes principal and interest payments on the County's Taxable Pension Obligation Bonds.

<sup>(2)</sup> Reduction due to credit from County Retirement System.

Investments of the retirement system are recorded at fair value, net of brokerage commissions and other costs normally incurred in a sale, based upon closing sale proceeds reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. As of June 30, 1997, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") rated the County's retirement system's ability to meet its financial commitments "AA-." The approximate fair value of all investments held by the retirement system, as of June 30, 1997 was as follows:

Domestic equity securities and cash for swaps and futures	\$1,389,158,062
International equity securities and cash for swaps and futures	794,379,856
Bonds and cash for swaps and futures	738,336,616
Cash collateral on securities lending	226,183,439
Real Estate	136,606,930
Cash and short-term investments	10,390,146
<b>Total Investments</b>	<b>\$3,295,055,049</b>

## **Risk Management**

The County is required to obtain and maintain various types of insurance coverage in connection with project lease financings of the County. In general, the Existing Leases (as defined below) require the County to maintain casualty insurance, public liability insurance, workers compensation insurance and rental interruption insurance.

In accordance with Government Accounting Standards Board Statement 10, "*Accounting and Financial Reporting for Risk Financing and Relating Insurance Items*," the County established an Internal Service Fund ("ISF") to report all of its uninsured risk management activities. An actuarial evaluation estimated that at June 30, 1998 claims of \$84.2 million, including \$28.4 million in public liability and \$55.8 million in workers' compensation, were probable, resulting in a financial loss to the County. This estimate was based partially on the experience of similar governmental entities. As of the same date, the ISF had an ending balance of \$28 million, resulting in an unfunded liability of approximately \$57 million. The estimate of claims liabilities were recorded in the ISF. In addition, there is a potential gross liability of \$14 million, which could result if unfavorable adjudication were rendered for pending legal actions. See Appendix B -- "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1998 at footnotes 2(C), 4(A)(1) and 4(C).

The County is required to obtain and maintain public liability insurance and workers compensation insurance under various of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than \$5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and of appropriation of such funds as may be necessary for self-funding and annual

certification to the trustee with respect to such financing leases by the County's risk management officer or an independent insurance consultant of the sufficiency of coverage.

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or workers compensation. Accordingly, the County may not be in compliance with these insurance provisions. However, in 1996 the County adopted a ten-year phased funding program to fund the unfunded liability in its internal service fund. In fiscal year 1996-97, the County deposited \$2 million into its ISF and in 1997-98 the County deposited \$4 million into its ISF. The ten-year phased funding program presently contemplates deposits of \$6 million into the ISF in fiscal year 1998-99 and \$8 million in fiscal year 1999-2000 and each fiscal year thereafter until the full unfunded liability in the ISF is eliminated. See "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1997" at footnotes 2(C) and 4(C).

### **County of San Diego Employees**

The following table lists the number of County employees for the years 1989 to 1998:

<b>TOTAL COUNTY EMPLOYEES</b>	
<b>Year (June 30)</b>	<b>Total Employees</b>
1989	15,057
1990	16,607
1991	17,150
1992	17,022
1993	16,999
1994	17,256
1995	17,470
1996	17,635
1997	17,541
1998	17,946

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

County employees are represented by ten unions representing 25 bargaining units. The unions represent approximately 85% of the County's approximately 18,000 employees and include the San Diego County Deputy Sheriff's Association; Social Services Union, Local 53S, SEIU, AFL-CIO; Deputy District Attorneys' Association; San Diego County Probation Association; District Attorney Investigators' Association; the Service Employees International Union, Local 2028, AFL-CIO and CLC; the American Federation of State, County and Municipal Employees, Council 36, AFL-CIO, Local 3500; Deputy County Counsels' Association and the Public Defender Attorneys' Association.

Labor agreements are in place for most unions, through June 30, 2001 covering approximately 16,000 employees. The Deputy Sheriff Association and the District Attorney Investigation Association have agreements through June 30, 2000. The remainder of all employees are unrepresented.

## **Sale of the County Solid Waste System**

On October 31, 1997, the County completed the sale of its solid waste system, consisting of four active landfills, and certain related facilities, including transfer stations and a recycling facility (the "Solid Waste System"), to Allied Waste Systems, Inc. ("Allied") for approximately \$157,000,000. Since the 1940's and until recently, the Solid Waste System was utilized by the County and various municipalities and private waste haulers in the County for the disposal of virtually all of the solid waste generated in the County (with the exception, in recent years, of solid waste generated in the City of San Diego).

The financial operations of the Solid Waste System had been managed by the County through a separate solid waste fund, into which the revenues of the Solid Waste Systems (consisting primarily of tipping fees paid by users of the Solid Waste System) were deposited, and from which costs of the Solid Waste Systems were paid. Over the last several years prior to the sale, the Solid Waste System experienced significant financial distress. During that period, moneys from the County's general fund, operating reserves and certain extraordinary revenue sources were loaned to the Solid Waste System from time to time in order to prevent the insolvency of the Solid Waste enterprise fund. These circumstances led to the County's sale of the Solid Waste System.

In connection with the sale of the Solid Waste System, the County transferred all liabilities corresponding to the Solid Waste System's assets, including assets which were sold, closure and postclosure funding, and environmental liability under CERCLA or related state or federal statutes (if any) for the landfills sold. The County retained ownership of, and responsibility for, a number of inactive sites within the Solid Waste System, including 12 inactive landfills. From a portion of the proceeds of the sale of the Solid Waste System the County established reserves in the amount of \$101 million for the various costs associated with continuing ownership of the retained facilities, such as postclosure and closure costs, as well as costs relating to environmental remediation, if any. The County believes it has made a reasonable estimate of such postclosure costs and does not anticipate using funds in its General Fund to pay any such costs. However, actual costs associated with continuing ownership of the retained facilities may differ from estimated costs and may exceed the amounts currently reserved by the County for such purposes. Any excess over estimated costs would be payable from the General Fund or insurance proceeds.

A company whose proposal to purchase the Solid Waste System was rejected ("Petitioner") filed a lawsuit in San Diego County Superior Court challenging the validity of the sale of the Solid Waste System by the County to Allied. The trial court found the sale to be valid and upheld the transfer by the County to Allied. Petitioner has appealed the trial court's ruling, and filed a brief on September 8, 1998. In the event the County should not prevail on appeal, the County may be required to rescind the sale, reimburse Allied for the purchase price, and seek new proposals for the sale of the Solid Waste System. In such event the County may receive less sale proceeds than it received from the sale of the Solid Waste System to Allied. However, the County does not expect such result to have a material affect on the County's financial condition.

The County has appropriated approximately \$56 million from proceeds available from and in connection with the sale of the Solid Waste System to fund a general operating reserve in the amount of approximately \$32 million and to fund certain capital and environmental projects in the County in the approximate amount of \$24 million.

## Short-Term Borrowing

The County issued its 1998-99 Tax and Revenue Anticipation Notes (the "1999 TRANs") in an aggregate principal amount of \$175,000,000, all of which are outstanding and scheduled to mature on September 30, 1999. The 1999 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 1999. The 1999 TRANs are obligations of the County but are payable only out of taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 1998-99 and legally available for payment thereof (exclusive of any moneys required to be used to repay any Treasurer's Loan and exclusive of moneys pledged to the Teeter Obligation Commercial Paper Notes, as described herein) ("Unrestricted Revenues").

In addition, the County has authorized and issued its Teeter Obligation Commercial Paper Notes, Series A and Series B as taxable and tax-exempt obligations, respectively, secured by (i) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all fiscal years ended before June 30, 1998 and (ii) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. The amounts pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the 1999 TRANs and the amounts pledged to pay the 1999 TRANs will not be available to pay the Teeter Obligation Commercial Paper Notes. See "Security for and Sources of Payment of the Notes" and "County Financial Information -- The Teeter Plan."

Section 6 of Article XVI of the California Constitution provides for interfund borrowing (a Treasurer's Loan) to cover short term operational deficits occurring as a result of imbalances between receipts and expenditures. A Treasurer's Loan was utilized by the County during Fiscal Year 1996-97 to pay for certain costs incurred in connection with the prepayment of the County's obligations under the California Pollution Control Financing Authority's Solid Waste Revenue Bonds (North County Recycling Center) 1991 Series A and B and other early expenditures incurred by the County, which loan was repaid. A Treasurer's loan was utilized during the Fiscal Year 1993-94 to prefund interest for a taxable note issue, which loan was repaid. The County has also utilized such Treasurer's Loans during Fiscal Years 1990-91 to 1995-96 to fund certain County library programs in annual amounts ranging from \$600,000 to \$6,000,000. Such loans are usually repaid by May of the fiscal year in which such Treasurer's Loan was made and have in all events been repaid by the end of the respective fiscal year. The County has not otherwise obtained Treasurer's Loans. The California Constitution prohibits interfund borrowing by counties after the last Monday of April of each fiscal year, and of amounts in excess of 85% of revenues accrued. The Board of Supervisors has authorized Treasurer's Loans during Fiscal Year 1998-99, and generally authorizes such loans on an annual basis. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Certificates, is paid from such revenues.



## **General Obligation Debt, Lease Obligations and Long-Term Loans**

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, the County Employees' Retirement Association, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. As of May 1, 1998, annual base rental payments of the County for Fiscal Year 1997-98 amounted to approximately \$82 million and there was approximately \$984 million aggregate principal amount of long-term general fund obligations outstanding. The annual base rental for the obligations will aggregate \$104,960 million in Fiscal Year 1998-99.

A summary of general fund long-term obligations payable from the general fund is presented as follows:

**SUMMARY OF GENERAL LONG-TERM OBLIGATIONS  
PAYABLE FROM THE GENERAL FUND  
As of June 30, 1998  
(In Thousands)**

CERTIFICATES OF PARTICIPATION San Diego County Capital Asset Leasing Corporation (SANCAL):	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
1989 East Mesa COP's, issued November 1989	6.20-7.10%	2010	\$ 24,433	\$ 16,788
1991 Interim Justice Refunding, COP's, issued September 1991	4.80-6.50%	2007	38,045	26,785
1993 Series A, COP's issued March 1993	3.00-5.75%	2013	7,640	6,615
1993 Vista Building, issued March 1993	3.25-5.10%	2007	26,085	20,290
1993 Master Refunding, COP's issued May 1993	2.50-5.625%	2012	203,400	158,225
1996 Regional Communication System, COP, issued May 1996	4.30-5.50%	2018	52,230	52,230
1996 North & East County Courthouse, COP's issued December 1996	4.00-5.60%	2019	37,690	37,690
1997 Master Refunding, COP's issued June 1997	4.00-4.80%	2004	28,035	25,040
1997 Central Jail Refunding, COP's, issued July 1997	4.00-5.00%	2025	80,675	80,675
Total COPs			<u>\$ 498,233</u>	<u>\$ 424,338</u>
CAPITALIZED LEASES				
San Diego Regional Building Authority Lease, MTS Tower Refunding issued October 1991	4.60-6.363%	2019	\$ 46,965	\$ 42,100
San Diego Regional Building Authority Lease, Downtown Courthouse, issued July 1993	5.19-7.25%	2011	<u>55,419</u>	<u>66,830</u>
THIRD PARTY FINANCING LEASES:				
Motorola Corporation Lease beginning December 1995	5.65%	2011	39,772	36,020
Other capitalized leases with various beginning dates from December 1991 to the present	4.54-8.00%	1996-2007	14,917	10,272
Total Capitalized Leases			<u>\$ 173,284</u>	<u>\$ 155,222</u>
PENSION BONDS				
San Diego Pension Obligation Bonds, Series A	4.70-6.60%	2007	\$ 430,430	\$ 395,475
Accumulated Unpaid Employee Leave Benefits				\$ 69,438
Landfill Closure				101,000
Arbitrage Rebate				0
REVENUE BONDS				
Redevelopment Agency Series 1995	4.75%-6.75%	2020	<u>5,100</u>	<u>5,035</u>
TOTAL GENERAL LONG-TERM DEBT			<u>\$1,109,907</u>	<u>\$1,153,368</u>

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

In addition to the long-term general fund obligations and liabilities listed in the above table, the County has various other liabilities. See Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1997" attached hereto.

## **Recent Financings**

On July 22, 1997 the County issued its Certificates of Participation (1997 Central Jail Refunding) in an aggregate principal amount of \$80,675,000 to provide funds to refund the outstanding principal amount of the County's \$64,925,000 Certificates of Participation (1994 Inmate Reception Center and Cooling Plant Financing).

## **Direct and Overlapping Debt**

The County contains numerous municipalities, school districts and special purpose districts such as water districts, all of which have issued general obligation bonds. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated April 1, 1998. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

**COUNTY OF SAN DIEGO ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT**  
**As of September 1, 1998**

1997-98 Assessed Valuation: \$152,902,378,380 (includes unitary utility valuation)  
 Redevelopment Incremental Valuation: 7,348,716,281  
 Adjusted Assessed Valuation: \$145,553,662,099

**OVERLAPPING TAX AND ASSESSMENT DEBT:**

	<b>% App icable</b>	<b>Debt 9/1/98</b>
Metropolitan Water District	16.274%	\$ 98,063,869
San Diego County Water Authority	100.	8,865,000
San Diego Unified School District Lease Tax Obligations	100.	340,410,000
San Marcos Unified School District School Facilities Improvement District No. 1	100.	21,843,019
Carlsbad Unified School District	100.	26,498,696
Union High School Districts	100.	71,091,917
School Districts	100.	90,858,644
Otay Municipal Water District Improvement Districts	100.	12,530,000
Other Municipal Water Districts	100.	8,239,000
City of San Diego	100.	20,200,000
Other Cities	100.	5,250,000
San Diego Open Space Park Facilities District	100.	57,425,000
Community Facilities Districts	100.	497,545,000
Other Special Districts	100.	3,283,000
1915 Act Bonds (Estimated)	100.	<u>252,212,114</u>
<b>TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$1,514,315,259</b>
Less: San Diego Open Space Park Facilities District (100% self-supporting)		57,425,000
Self-supporting water bonds		<u>115,000</u>
<b>TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$1,456,775,259</b>

**DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:**

San Diego County General Fund Obligations	100. %	\$ 520,418,000	(1)
San Diego County Pension Obligations	100.	373,220,000	
San Diego County Superintendent of School Obligations	100.	2,267,500	
Community College District Certificates of Participation	100.	32,425,000	
San Diego Unified School District Certificates of Participation	100.	67,675,000	
Other Unified School District Certificates of Participation	100.	53,133,314	
High School District Certificates of Participation	100.	29,362,886	
School District Certificates of Participation	100.	52,302,168	
Municipal Water District Certificates of Participation	100.	32,730,000	
City of San Diego General Fund Obligations	100.	214,370,000	
City of Escondido General Fund Obligations	100.	96,267,916	
Other City General Fund Obligations	100.	283,526,532	
San Miguel Consolidated Fire Protection District Certificates of Participation	100.	11,770,000	
Fallbrook Sanitary District Certificates of Participation	100.	<u>12,800,000</u>	
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$1,782,268,316</b>	
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		28,560,000	
City of San Diego Authority Bonds (100% self-supporting)		4,350,000	
City of Oceanside Certificates of Participation		<u>3,820,000</u>	
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$1,745,538,316</b>	
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$3,296,583,575</b>	(2)
<b>NET COMBINED TOTAL DEBT</b>		<b>\$3,202,313,575</b>	

(1) Excludes certificates of participation to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

**Ratios to 1997-98 Assessed Valuation:**

Total Gross Direct and Overlapping Tax and Assessment Debt.....	0.99%
Total Net Direct and Overlapping Tax and Assessment Debt.....	0.95%

**Ratios to Adjusted Assessed Valuation:**

Combined Direct Debt (\$893,638,000).....	0.61%
Gross Combined Total Debt.....	2.26%
Net Combined Total Debt.....	2.20%

**STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/97:** \$10,953,642

Source: California Municipal Statistics, Inc.

## **SUPPLEMENTAL FINANCIAL INFORMATION**

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

### **1996-97 and 1997-98 Fiscal Year's State Budgets**

With the end of the recession, and a growing economy starting in 1994, the State's financial condition improved markedly in the last two fiscal years, with a combination of better than expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on the actions taken in earlier years. The last of the recession-induced State budget deficits was repaid, allowing the State's budget reserve (the "SFEU") to post a positive cash balance totaling \$281 million as of June 30, 1997. The State's cash position also returned to health, as cash flow borrowing was limited to \$3 billion in 1996-97, and no deficit borrowing has occurred over the end of these last two fiscal years.

In each of these two fiscal years, the State budget contained the following major features:

1. Expenditures for K-14 schools grew significantly, as the new revenues were directed to school spending under Proposition 98. This new money allowed several new education initiatives to be funded, and raised K-12 per-pupil spending to approximately \$4,900 by Fiscal Year 1996-97. The 1997-98 State Budget allocated a record \$22.1 billion in funding to State schools. Of this amount, approximately \$1.4 billion is allocated to the class-size reduction program permitting all school districts with sufficient classroom space, to reduce kindergarten through third grade classes to below 20 students.
2. The budgets limited health and welfare spending levels, holding to the reduced benefit levels enacted in earlier years and attempted to reduce General Fund spending by calling for greater support from the federal government. The State also attempted to shift to the federal government a larger share of the cost of incarceration and social services for illegal aliens. Some of these efforts were successful but as a whole the federal support never reached the levels anticipated when the budgets were enacted. These funding shortfalls were, however, filled by the strong revenue collections, which exceeded expectations.
3. General Fund support for the University of California and California State Universities grew by an average of 4.9 percent and 3.3 percent per year, respectively, and there were no increases in student fees.
4. General Fund support for the Department of Corrections grew as needed to meet increased prison population, although no new prisons were approved for construction. \$100 million was allocated in the 1997-1998 Budget to police departments and district attorney offices for employees and equipment.
5. There were no tax increases, and starting January 1, 1997, there was a 5 percent cut in corporate taxes. The suspension of the Renter's Tax Credit, first taken as a cost-saving measure during the recession, was continued. The 1997-1998 State Budget includes a \$1.36 billion repayment of borrowings from the state pension fund.

As noted, the economy grew strongly during these fiscal years, and as a result, the General Fund took in substantially greater tax revenues (around \$2.2 billion in 1995-96 and \$1.6 billion in 1996-97) than were initially planned when the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, and to make up shortfalls from reduced federal health and welfare aid. As a result, there was not any dramatic increase in budget reserves, although the accumulated budget deficit from the recession years was finally eliminated in the past fiscal year.

### **1998-99 Fiscal Year Budget**

The State of California added nearly 400,000 jobs during fiscal year 1997-98, with unemployment levels dropping to record lows. In addition, housing starts rose by 32%. The State expects strong economic conditions to continue, and forecasts job creation and income growth of 2.9% and 5.7% respectively, thereby outpacing national growth.

The 1998-1999 Fiscal Year State Budget projects total General Fund revenues and transfers of approximately \$56.9 billion, an increase of approximately \$4 billion over the previous fiscal year's revenues. The State Budget also includes a tax reduction of \$1.4 billion, the largest single-year reduction in the State's history. More than \$500 million of this reduction will result from the reduction of the VLF fee. See "County Financial Information – Vehicle License Fee Reduction." The Budget also includes a renters' tax credit for lower-income residents who pay taxes.

In addition, the 1998-99 Fiscal Year State Budget entails Special Fund expenditures of \$14.69 billion and Special Fund revenues of \$14.29 billion.

The principal features of the 1998-99 Fiscal Year State Budget include:

1. K-12 education receives an increase of \$2.2 billion in increased and ongoing Proposition support in the Budget. As a result of the augmentation, the revised K-12 dollars per pupil spending will increase by more than \$240 to \$5,695.
2. The University of California's General Fund budget will rise by \$340 million, a 15.6% increase, while funding for the California Community Colleges will increase by \$300 million, a 6.6% increase.
3. General Fund expenditures of \$15.34 billion for health and welfare programs.

The 1998-99 Fiscal Year State Budget also provides for a budget reserve of approximately \$1.25 billion for economic uncertainties.

### **Changes in State Budget**

The State has in recent years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will encounter budgetary problems for the 1998-99 fiscal year and if it does, it is not clear what measures will be taken by the State to balance the budget as required by law. The County cannot predict the ultimate impact of the State's budget on its finances and operations. However, the County does not expect variations in State aid to have a material effect on its ability to repay the Certificates.

## **Federal Welfare Reform**

On August 22, 1996, the President signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the "Welfare Reform Act"), which makes substantial modifications to the federal welfare system. Among other changes, the law includes: (i) conversion of Aid to Families with Dependent Children from an entitlement program to a block grant titled Temporary Assistance for Needy Families ("TANF"), with lifetime time limits on TANF recipients, work requirements and other changes; (ii) provisions denying certain federal welfare and public benefits to legal noncitizens (this provision was recently changed by a federal law), allowing states to elect to deny additional benefits (including TANF) to legal noncitizens, and generally denying almost all benefits to illegal immigrants; and (iii) changes in the Food Stamp program, including reducing maximum benefits and imposing work requirements.

As part of the 1997-98 Budget Act legislative package, the Legislature and Governor agreed on a comprehensive reform of the State's public assistance programs to effectively implement the Welfare Reform Act. The new basic State welfare program is called California Work Opportunity and Responsibility to Kids Act ("CalWORKS"), which replaces the former Aid to Families with Dependent Children ("AFDC") and Greater Avenues to Independence ("GAIN") programs effective January 1, 1998. Consistent with the Welfare Reform Act, CalWORKS contains new time limits on receipt of welfare aid. The centerpiece of CalWORKS is the linkage of eligibility to work participation requirements. Administration of the new Welfare-to-Work programs will be largely at the county level, and counties are given financial incentives for success in this program.

**State and federal decisions to continue services to legal immigrants have decreased the projected financial impact on county funds to General Assistance and the County Medically Indigent Services Program. Due in part to declining caseloads, generally resulting from the economic recovery in California and the County in particular, based on current information the County anticipates that there will not be any materially adverse financial impact to its budget as a result of welfare reform.**

## **SAN DIEGO COUNTY INVESTMENT POOL**

### **General**

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the County Treasurer-Tax Collector (the "Treasurer") the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. Historically, through the use of continuing deposits into the Pool, the proceeds of maturing investments, and the sale of non-maturing investments at or above par, the County was able to

provide for such withdrawals without incurring any loss to the Pool from the sale of investments. However, as market interest rates rose in 1994, the value of the various investments (including, in particular, derivatives) in the Pool declined significantly. In addition, the amount of new deposits into the Pool decreased. Primarily as a result of these factors, significant stress was placed on the ability of the Treasurer to continue to honor withdrawal requests from Depositors in the Pool without liquidating investments in the Pool at a loss. In order to attempt to assure the continuing viability of the Pool, and to minimize the need to liquidate investments in the Pool at a loss in order to meet cash flow requirements of Depositors seeking to make withdrawals from the Pool, a phased withdrawal plan for all Voluntary Depositors was agreed to which provided for the scheduled withdrawal of all Voluntary Depositors over time through June 1998. The objective of this withdrawal plan was to permit the withdrawal of Voluntary Depositor's funds without adversely affecting the liquidity of the Pool and without Depositors incurring losses. Although participation in the phased withdrawal proposal was not required by law, all Voluntary Depositors participated in this plan. During the phased withdrawal plan, the Pool satisfied the cash flow requirements of all Depositors. The phased withdrawal plan was completed in January 1998. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the County Treasurer, the Chief Financial Officer/Auditor and Controller, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the County Treasurer.

### **The Treasury Pool's Portfolio**

As of November 30, 1998, the securities in the Treasury Pool had a market value of \$1,609,031,649 and a book value of \$1,627,444,515, for a net unrealized loss of 1.18% of the book value of the Treasury Pool. As of November 30, 1998, the weighted average maturity of the Pool portfolio was approximately 316 days. As of November 30, 1998, 23.52% of the Pool was invested in securities with maturities ranging from 1-30 days, 12.74% of the Pool was invested in securities with maturities ranging from 31-90 days, 2.82% of the Pool was invested in securities with maturities ranging from 91-180 days, 35.18% of the Pool was invested in securities with maturities ranging from 181-365 days, and 13.47% of the Pool was invested in securities with maturities ranging from 366 days to 2 years, and 12.28% maturing between 2 and 3 years.

As of November 30, 1998, the Treasury Pool had 2.88% of variable rate securities whose interest rates vary in inverse relationship to interest rates and 3.07% of securities whose interest rates are determined based on the spread relationship between two indices. As of November 30, 1998, the Treasury Pool had no reverse repurchase agreements outstanding. In the past year, the Pool entered into reverse repurchase agreements for the purpose of increasing the yield on investments in the Treasury Pool and not for the purpose of covering liquidity shortfalls.

The duration for the Treasury Pool was 0.44 as of November 30, 1998. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.44 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.44 percent.

As of November 30, 1998, approximately .9% of the total funds in the Pool were deposited by Voluntary Depositors; such as cities and fire districts, 5.7% by community colleges, 57.1% by the County, and 36.3% by K through 12 school districts.



Fitch Investors Services, L.P. has rated the Pool's ability to meet its financial commitments "AA"/P1+.

### **Investments of the Treasury Pool**

*Authorized Investments.* Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

*The Investment Policy.* The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 52% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread approximately equally over more than one year to five years. The Investment Policy states that the Pool will not make new investments in securities which are considered "derivative" securities in the foreseeable future. Generally, "derivatives" refer to securities whose coupon is determined by the price, level or relationship of or between one or more underlying instruments or markets. As of November 30, 1998, the Pool holds approximately \$96.8 million in derivatives, including securities that could result in zero interest accrual. The County intends to and expects to hold these securities to maturity. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same. The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase

agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

#### **Certain Information Relating to Pool**

The following tables reflect various information with respect to the Pool as of the close of business November 30, 1998. **As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below.** In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on November 30, 1998, the Pool necessarily would have received the values specified.

The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

**SAN DIEGO COUNTY INVESTMENT POOL PORTFOLIO INFORMATION**  
as of November 30, 1998

	Percent Of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/(Loss)	Yield To Maturity	Weighted Average Days To Maturity
Federal Farm Credit Bank Notes	0.12%	2,000,000	99.70	35,133	1,994,032	(5,968)	5.27	63
Federal Home Loan Mortg. Corp. Not	5.24	85,233,952	99.89	399,595	84,909,250	(141,420)	5.15	638
Federal Nat'l Mortgage Assoc. Notes	12.61	205,198,100	99.72	631,526	204,427,720	(570,163)	5.17	687
Student Loan Marketing Assoc. Notes	2.89	47,100,000	98.03	245,862	46,171,659	(928,341)	3.48	311
World Bank Notes	3.07	50,000,000	97.03	264,944	48,515,300	(1,484,700)	2.51	289
Corporate Medium Term Notes	10.75	175,029,249	99.62	1,641,486	174,336,225	(\$599,669)	4.86	849
Money Market Funds	2.52	41,000,000	100.00	170,449	41,000,000	0	5.58	1
Repurchase Agreements	15.36	250,000,000	100.00	39,757	250,000,000	0	5.73	1
Negotiable Certificates Of Deposit	28.57	465,000,000	97.24	2,707,756	452,174,550	(12,825,450)	2.83	289
Commercial Paper	12.87	209,456,816	99.42	0	209,456,802	(15)	5.47	40
Collateralized Certificates of Deposit	0.04	588,000	100.00	1,254	588,000	0	5.39	147
Yield Curve Notes	3.07	50,000,000	97.82	308,514	48,912,500	1,087,500	2.29	86
Inverse Floating Notes	2.88	46,838,398	99.37	19,343	46,545,611	(292,787)	4.97	116
Totals For November 1998	100.00%	\$1,627,444,515	98.82%	\$ 6,465,620	\$1,609,031,649	(\$17,936,014)	4.38%	316
Totals For October 1998	100.00%	\$1,565,139,567	98.76%	\$ 5,438,288	\$1,547,483,373	(\$17,179,341)	4.18%	229
Change From Prior Month		\$ 62,304,948	0.06%		\$ 61,548,276	(\$756,673)	0.20%	87
Overall Portfolio Duration	0.44 years							
	Nov '98 Return	Annualized	Fiscal Year To Date Return	Annualized	Calendar Year To Date Return	Annualized		
Book Value	0.346%	4.208%	1.615%	3.852%	3.613%	3.948%		
Market Value	0.250%	3.040%	2.900%	6.919%	9.510%	10.393%		

Source: County of San Diego, Treasurer-Tax Collector.

## LIMITATIONS ON TAX REVENUES

### Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad Valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "sites" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The County is unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad Valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

### Article XIII B

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

### **Proposition 46**

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

### **Proposition 62**

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires

that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. In fiscal year 1996-97, the last fiscal year for which audited financial statements are available, the County received approximately \$259,395 in tax revenues from this 1% increase. In addition, the County imposed a business certificate fee in 1990 without a vote. This fee resulted in approximately \$743,510 in revenue for the fiscal year ending June 30, 1997. See Appendix B – “The County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1997.” The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax and the business certificate fee will not adversely affect the ability of the County to pay the Certificates as and when due.

### **Right to Vote on Taxes Initiative-Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County’s ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County’s costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. However, other than any impact resulting from the exercise of this initiative power, presently the County does not believe that the potential financial impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County’s ability to pay the principal of and interest with respect to the Certificates as and when due and its other obligations payable from the General Fund.

Article XIII C of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special

taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIII C of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D, as described below. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest represented by the Base Rental Payments of the Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIII D of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment"

is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by [a local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees under Article XIII D of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The County has a clean water enterprise fund which is self-supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D of Proposition 218. Further, the fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIII D of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.



Implementing legislation respecting Proposition 218, in addition to SB 919, has been introduced in the State legislature that would supplement and add provisions to California statutory law. No assurance may be given as to the final terms of such legislation or its potential impact on the County.

### **Future Initiatives**

Article XIII A, Article XIII B and Proposition 98, 187 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

### **RISK FACTORS**

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

### **Not a Pledge of Taxes**

The obligation of the County to pay the Base Rental Payments or Additional Rental does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments or Additional Rental does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Sublease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Sublease to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Sublease that, for as long as the Property are available for its use and possession, it will make the necessary annual appropriations within its budget for all Base Rental Payments. The County is currently liable on other obligations payable from general revenues.

### **Additional Obligations of the County**

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Sublease (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

## **Limitations on Remedies**

The rights of the owners of the Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. The County may invest, and direct the Trustee to invest, amounts held in the Certificate Reserve Fund, the Acquisition Fund, the Capitalized Interest Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the County Investment Pool, which amounts are pledged to repay the Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the federal bankruptcy code, a court might hold that the Owners of the Certificates do not have a valid lien on the amounts held in such funds where such amounts are deposited in the County Investment Pool and may not provide the Owners of the Certificates with a priority interest in such amounts. In such instance, unless such Owners could "trace" the funds, the Owners would be only unsecured creditors of the County. There can be no assurance that the Owners could successfully so "trace" the amounts representing amounts held in such funds.

## **Default**

In the event of a default, there is no right of the Trustee to reenter or relet the Leased Premises and there is no remedy of acceleration of the total Base Rental Payments due over the term of the Sublease, nor is the Trustee empowered to sell the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. The County will be liable only for Base Rental Payments on an annual basis, and the Trustee may not terminate the County's right to possession of the Leased Premises. The Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

## **Abatement**

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Certificate Reserve Fund; (ii) amounts received in respect of use and occupancy insurance;

and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Sublease shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Sublease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Property.

### **Earthquakes**

The County is not obligated under the Sublease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance.

### **THE CORPORATION**

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of equipment, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Barry I. Newman, Morris Slayen, Hardy G. Kuykendall, Tim Considine and Michel Anderson.

The County's Chief Financial Officer/Auditor and Controller, Treasurer-Tax Collector, the County Counsel, Director of General Services, Director of Purchasing and Contracting and other County employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 352, San Diego, California 92101.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, the portion of each Base Rental Payment designated as and comprising interest is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel are of the further opinion that the portion of each Base Rental Payment due under the Sublease designated as and comprising interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the opinion of Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of the portion of payments such as the Base Rental Payments designated as and comprising interest. The County has covenanted to comply with certain restrictions designed to assure that the portion of each Base Rental Payment designated as and comprising interest will not be included in gross income for federal income tax purposes. Failure to comply with these covenants may result in the portion of each Base Rental Payment designated as and comprising interest being included in federal gross income, possibly from the date of execution and delivery of the Certificates. The opinion of Special Counsel assumes compliance with these covenants. Special Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may affect the value of, or the tax status of the portion of each Base Rental Payment designated as and comprising interest. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of the portion of each Base Rental Payment designated as and comprising interest. Prospective owners of the Certificates are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax, including H.R. 3097, passed by the House of Representatives on June 17, 1998.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation,

defeasance of the Base Rental Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel express no opinion as to the portion of each Base Rental Payment designated as and comprising interest if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel have rendered an opinion that the portion of each Base Rental Payment designated as and comprising interest is excluded from gross income for federal income tax purposes, the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment designated as and comprising interest, may otherwise affect the tax liability of an owner of a Certificate. The nature and extent of these other tax consequences will depend upon the particular tax status of the Certificate owner or the Certificate owner's other items of income or deduction. Special Counsel express no opinion regarding any such other tax consequences.

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, sale, execution and delivery by the County of the Certificates are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix E hereto. Special Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel.

### **FINANCIAL ADVISOR**

Sutro & Co. Incorporated served as the Financial Advisor to the County in connection with the execution and delivery of the Certificates. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness, of the information contained in this Official Statement.

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement with State Street Bank and Trust Company of California, N.A., acting as Dissemination Agent (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided by no later than 180 days after the end of the prior fiscal year (commencing with the report for the County's fiscal year ended June 30, 1999), to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and information of the type set forth in this Official Statement under the heading "County Financial Information." In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7)

modifications to rights of security holders; (8) optional, contingent or unscheduled bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Dissemination Agent may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the owners of the Certificates (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would, in the opinion of nationally recognized bond counsel, have complied with the requirements of Rule 15c2-12 as of the date of the Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (3) either (i) the amendment, in the opinion of the nationally recognized bond counsel or counsel expert in federal securities laws, does not materially impair the interests of the holders of the Certificates, or (ii) the holders of the Certificates consent to the amendment to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Trust Agreement with consent of holders of the Certificates pursuant to the terms of the Trust Agreement as in effect on the date of the Disclosure Agreement. The County shall describe such amendment and the reason therefore in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Certificates. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Certificates and beneficial owners of the Certificates and shall be enforceable by the Trustee on behalf of such owners and any owners of Certificates, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

## **FINANCIAL STATEMENTS**

The general purpose financial statements of the County included in Appendix B to this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants, as stated in their report appearing in Appendix B. Deloitte & Touche LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Deloitte & Touche LLP with respect to any event subsequent to its report dated October 9, 1998.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Deloitte & Touche LLP, independent certified public accountants, will verify certain mathematical computations as to the sufficiency of the Defeasance Securities deposited into the Escrow Fund to pay, when due, the interest on the Prior Obligations on and prior to the redemption dates thereof, and to pay on the redemption dates thereof, the redemption prices of the Prior Obligations.

## LITIGATION

No litigation is pending, or to the best knowledge of the County, threatened against the County concerning the validity of the Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or contesting the County's ability to levy and collect *ad valorem* property taxes. There are a number of suits and claims pending against the County, all of which are in the normal course of the County's business. Also pending are a number of personal injury and wrongful death suits and claims, the aggregate amount of which will not, in the opinion of the County Counsel, materially affect the County's finances or impair its ability to make Base Rental Payments under the Sublease in amounts sufficient to pay, when due, amounts designated as principal and interest on the Certificates.

## RATINGS

Fitch Investors Service, Inc. ("Fitch") has assigned the Certificates a rating of "AAA," S&P has assigned the Certificates a rating of "AAA," and Moody's Investors Service ("Moody's") has assigned the Certificates a rating of "Aaa." Each rating has been assigned with the understanding that, upon delivery of the Certificates, a policy insuring payment when due of the principal of and interest on the Certificates will be issued by the Insurer. Such ratings reflect only the views of Fitch, S&P and Moody's, and do not constitute a recommendation to buy, sell or hold the Certificates. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Fitch Investors Service, Inc., One State Street Plaza, New York, New York 10004, telephone number (212) 208-8000; Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004, telephone number (212) 208-1002; and Moody's Investors Service, 99 Church Street, New York, New York 10007, telephone number (213) 553-0317. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

## UNDERWRITING

The Certificates are being purchased by Merrill Lynch & Co. and the other underwriters named on the cover page hereof (the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of \$72,385,517.10 (which amount represents the principal amount of the Certificates less an underwriter's discount of \$623,457.70 and less an original issue discount of \$106,025.20), plus accrued interest. The purchase agreement relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

## MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the County.

COUNTY OF SAN DIEGO

By: /s/ Lawrence B. Prior III  
Chief Administrative Officer

Dated: December 17, 1998



## APPENDIX A

### ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

#### General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately \$10 billion annually to the retail and service businesses of the area.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center, containing 354,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms began operation in November 1989. The Convention Center can accommodate events for 30,000 to 40,000 people. During 1990, its first year of operation, 354 events were held, attracting 1.1 million guests. An estimated 280,000 of these guests were from out of town. Major conventions and trade shows are scheduled into the year 2009.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (i) regional services such as courts, probation, medical examiner, jails, elections and public health; (ii) health, welfare and human services such as mental health, senior citizen and child welfare services; (iii) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (iv) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

## **County Government**

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer/Auditor and Controller. Elected officials include the Assessor, County Recorder-County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

## **Growth Management**

The County has fostered a regional growth management plan rather than development limitations. The current regional growth management effort was approved by the voters in November 1988 as Proposition C, the only one of five growth-related measures on the ballot to be approved. It provides for a voluntary planning process to help define, plan, and prepare for the impacts of growth on a regional basis. Representatives of the County and each of the 18 incorporated cities within the County agreed to a growth management board that came into being in 1990 through an amendment to the SANDAG joint powers agreement designating SANDAG as the board. The board has no power to limit growth in any jurisdiction.

## **Population**

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population for 1997 was estimated to be approximately 2,782,800, making it the second largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 1997 population increased 1.8% from 1996. Approximately 32% of the growth in population in 1997 can be attributed to migration, a large share of which can be linked to employment opportunities. The remaining 68% is from net natural increases, i.e., births less deaths.

Population in the County is expected to grow to 3.0 million people by the year 2000, and to 3.5 million people by 2010, which is nearly a 17% increase over the existing population.

The City of San Diego is the seventh largest city in the nation, and had a population of approximately 1.2 million people in 1997.

The following table shows changes in the population in the County, the State and the United States for the years 1987 to 1997.

## POPULATION TRENDS (in thousands)

<b>Year</b>	<b>San Diego County (000)<sup>(1)</sup></b>	<b>Percent Change</b>	<b>State of California (000)<sup>(1)</sup></b>	<b>Percent Change</b>	<b>United States (000)<sup>(1)</sup></b>	<b>Percent Change</b>
1987	2,248	3.64%	27,717	2.46%	242,804	0.89%
1988	2,328	3.56	28,393	2.44	245,021	0.91
1989	2,418	3.87	29,142	2.64	247,342	0.95
1990	2,480	2.56	29,976	2.86	249,908	1.04
1991	2,547	2.70	30,646	2.24	252,648	1.10
1992	2,602	2.16	31,320	2.20	255,458	1.11
1993	2,666	2.46	31,746	1.36	258,245	1.09
1994	2,706	1.50	32,140	1.24	260,089	0.71
1995	2,721	0.55	32,344	0.63	262,643	0.99
1996	2,730	1.00	32,231	-1.00	263,434	0.99
1997 <sup>(2)</sup>	2,724	0.22	32,609	1.17	269,054	2.13

Sources: State of California Department of Finance; U.S. Department of Commerce, Bureau of the Census.

<sup>(1)</sup> Estimated population as of July 1.

<sup>(2)</sup> Estimated population as of January 1, 1997.

### Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,287,700 in calendar year 1997. The number of employed workers in the labor force averaged approximately 1,246,300. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1993 through 1997.

**EMPLOYMENT TRENDS -- ANNUAL AVERAGES 1993-97**  
**By Place of Residence**  
**(in thousands)**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<b>County of San Diego</b>					
Labor Force	1,198.5	1,235.1	1,226.2	1,236.3	1,256.0
Employment (000s)	1,098.0	1,148.2	1,147.8	1,170.7	1,216.5
Unemployment Rate	8.4%	7.0%	6.4%	5.3%	3.1%
<b>State of California</b>					
Labor Force (000s)	15,259.0	15,337.7	15,415.5	15,596.0	15,951.0
Employment (000s)	13,853.0	14,259.4	14,205.9	14,470.0	15,071.0
Unemployment Rate	9.2%	7.0%	7.8%	7.2%	5.5%
<b>United States</b>					
Labor Force (000s)	128,040.0	131,056.0	131,304.0	135,060.0	137,169.0
Employment (000s)	119,306.0	123,060.0	124,900.0	127,899.0	130,777.0
Unemployment Rate	6.8%	6.1%	5.6%	5.3%	4.7%

Sources: California Employment Development Department; California Labor Market Bulletin; Employment Development Department, Labor Market Conditions in California.

The service industries accounted for approximately 31.7% of total nonagricultural employment in 1997, with a total of 334,100 jobs. The trade industry, including both retail and wholesale businesses, was the second largest sector in 1997, comprising approximately 23.3% of total County employment with a total of 245,300 jobs.

During 1997, government accounted for approximately 18.6% of total employment and manufacturing accounted for an additional 11.4%. The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve exclusively the local market. These two sectors are therefore directly influenced by the growth of population and housing.

The following table sets forth the annual average employment within the County, by employment sector, for the fiscal years 1993 through 1997.

**NONAGRICULTURAL EMPLOYMENT -- ANNUAL AVERAGES 1993-1997**  
**By Place of Work**  
(Amounts in Thousands)

<b><u>Employment Sector</u></b>	<b><u>1993</u></b>	<b><u>1994</u></b>	<b><u>1995</u></b>	<b><u>1996</u></b>	<b><u>1997</u></b>
Total, All Industries	957.9	960.3	985.4	1,109.3	1,053.6
Mining	0.4	0.4	0.3	0.3	0.3
Transportation and Public Utilities	35.17	35.18	37.3	38.3	39.1
Construction Employment	39.5	40.0	43.1	46.0	50.8
Manufacturing Employment	117.5	112.3	114.0	114.1	120.4
Wholesale and Retail Trade	225.5	225.4	229.6	241.2	245.3
Finance, Insurance and Real Estate Employment	62.2	60.9	55.3	55.6	57.4
Services Employment	287.3	294.5	310.6	332.3	334.1
Government Employment	179.1	180.6	184.7	191.9	196.4

Sources: County of San Diego Auditor and Controller; California Employment Development Department.

The following table sets forth the employers in the County:

**SAN DIEGO COUNTY  
LARGEST EMPLOYERS**

<u>Firm</u>	<u>Service/Product</u>
<b>10,000 OR MORE EMPLOYEES:</b>	
City of San Diego	Government
County of San Diego	Government
San Diego Unified School District	Education
Scripps Health	Healthcare
Sharp HealthCare Corp.	Healthcare
U.S. Postal Service	Postal Service
University of California, San Diego	Higher Education
<b>5,000-9,999 EMPLOYEES:</b>	
Kaiser Permanente	Healthcare
National Steel & Shipbuilding Co. (NASSCO)	Shipbuilders and Repairers
Qualcomm, Inc.	Telecommunications
San Diego Community College District	Education
<b>3,000-4,999 EMPLOYEES:</b>	
City of San Diego Police Department	Policing
Cubic Corporation	Electronics Manufacturers and Developers
Foodmaker, Inc.	Restaurants
FPA Medical Management	Medical Management Services
Home Depot USA, Inc.	Building Materials
Naval Aviation Depot North Island	Aircraft Maintenance and Repair
Pacific Bell, A Pacific Telesis Company	Telecommunications
Palomar Pomerado Health System	Healthcare
Price Costco	Warehouse/Shipping Clubs
San Diego Gas & Electric Co./Enova Corp.	Utilities
San Diego State University	Higher Education
Science Applications International Corp.	Technology Services
Solar Turbines Inc.	Turbines, Industrial Gas
University of California, S.D. Med. Center	Hospitals
<b>2,000-2,999 EMPLOYEES:</b>	
Ace Parking	Parking Stations and Garages
Bank of America NT & SA	Financial Services
Catholic Diocese of San Diego	Churches/Schools
Hewlett Packard Company	Electronic Instruments Manufacturer
Manpower Temporary Services	Temporary Help Services
Mercy Hospital and Health Centers	Hospitals
Rohr Industries	Aerospace Manufacturer
Scripps Medical Clinic	Healthcare
Scripps Technology Institute	Biomedical Research
Sony Technology Center	Communication-Wireless
Target Stores	Department Stores
University of San Diego	Higher Education
Wal-Mart, Inc.	Retail Store
Wells Fargo Bank N.A.	Banking

Source: San Diego Chamber of Commerce.

## Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

Although the 1991 figure of the County's total "real" economy showed a decrease for the first time in nine years, the Gross Regional Product ("GRP") for 1990 was \$60.4 billion, up 6.3% from 1989. The GRP is an estimate of the value for all goods and services produced in the region. The GRP for 1996 rose to \$79.1 billion from \$70.2 billion in 1995. The following table presents the County's GRP from 1987 through 1996.

### GROSS REGIONAL PRODUCT

<u>Year</u>	<u>Gross Regional Product (Billion \$)</u>	<u>Annual Percent Change</u>	
		<u>Current Dollars San Diego</u>	<u>Real Change<sup>(1)</sup> San Diego</u>
1987	46.7	9.1	5.5
1988	51.4	10.0	5.7
1989	56.8	10.5	6.1
1990	60.4	6.5	1.9
1991	61.8	2.2	-1.6
1992	63.4	2.6	-0.2
1993	64.8	2.2	0.7
1994	66.8	3.1	2.2
1995	73.6	5.0	4.6
1996	79.1	7.5	4.7
1997	83.4	6.5	4.4

Sources: Data for the U.S. by the Department of Commerce, Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce; County of San Diego Auditor and Controller.

<sup>(1)</sup> Adjusted using the GNP Implicit Price Deflator.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about \$10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

## Building Activity

Building permit valuation in the County in 1998 increased over 1997 levels. Measures limiting new housing remain in effect in areas throughout the County. The number of building permit authorizations has fallen in the last several years.

Annual total building permit valuation and the annual unit total of new residential permits from 1994 through 1998 are shown in the following table.

### BUILDING PERMIT ACTIVITY

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998<sup>(1)</sup></u>
<b>Valuation (in 000's)</b>					
Residential(*)	\$1,218,857	\$1,187,952	\$1,358,355	\$2,032,771	\$2,267,575
Non-Residential	<u>449,608</u>	<u>627,298</u>	<u>738,595</u>	<u>958,231</u>	<u>1,122,177</u>
Total	\$1,668,465	\$1,815,250	\$2,096,950	\$2,991,004	\$3,589,752
<b>New Dwelling Units</b>					
Single Family	5,247	4,736	5,816	8,335	8,926
Multiple Family	<u>1,688</u>	<u>1,872</u>	<u>1,052</u>	<u>3,065</u>	<u>2,944</u>
Total	6,935	6,608	6,868	11,402	11,870

(1) Source: Economics Sciences Corporation; Construction Industry Research Board.

(2) Preliminary, to and including November 1998.

\* Figures do not include alterations and additions.

## Commercial Activity

Consumer spending for Calendar Year 1997 resulted in approximately \$27.4 billion in taxable sales in the County.

The following table sets forth information regarding taxable sales in the County for Calendar Years 1993-1997.



**TAXABLE SALES**  
**Calendar Years 1993-1997**  
**(in Thousands)**

<b>Type of Business</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Apparel Stores	\$ 892,222	\$ 890,813	\$ 850,087	\$ 864,819	\$ 926,657
General Merchandise	2,841,444	2,966,086	2,962,497	3,088,863	3,285,977
Specialty stores	2,042,040	2,180,212	2,335,210	2,473,042	2,739,312
Food stores	1,227,909	1,196,519	1,210,908	1,266,502	338,661
Liquor stores	139,371	130,120	128,024	129,630	135,771
Home Furnishings/ Appliances	725,305	811,149	855,180	898,482	858,165
Eating & Drinking Establishments	2,105,137	2,165,277	2,271,296	2,385,143	2,523,340
Building Materials & Farm Implements	1,207,008	1,204,917	1,228,771	1,352,284	1,590,984
Automotive	2,542,729	2,799,470	2,925,561	3,142,170	3,207,297
Service Stations	1,334,355	1,310,698	1,353,264	1,480,992	1,521,295
Retail Stores Total	15,241,382	15,718,773	16,181,283	17,141,385	18,402,311
Business & Personal Services	1,173,790	1,211,950	1,270,837	1,373,745	1,538,544
All Other Outlets	<u>5,161,155</u>	<u>5,444,420</u>	<u>5,981,923</u>	<u>6,623,435</u>	<u>7,467,671</u>
<b>TOTAL ALL OUTLETS*</b>	<b><u>\$21,576,327</u></b>	<b><u>\$22,375,143</u></b>	<b><u>\$23,434,043</u></b>	<b><u>\$25,138,565</u></b>	<b><u>\$27,408,526</u></b>

Source: California State Board of Equalization, Taxable Sales in California.

\*Columns do not total due to certain omitted categories.

## Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 1993 and 1997.

### PERSONAL INCOME For Years 1993 through 1997

<u>Year and Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
<u>1993</u>		
San Diego County	42,282,698	38,082
California	528,958,745	39,330
United States	4,169,724,052	35,056
<u>1994</u>		
San Diego County	45,541,671	39,542
California	552,074,838	40,969
United States	4,436,178,724	37,070
<u>1995*</u>		
San Diego County	45,541,671	33,679
California	477,640,503	34,533
United States	3,964,285,118	32,238
<u>1996</u>		
San Diego County	40,913,543	34,445
California	492,516,991	35,216
United States	4,161,512,384	33,482
<u>1997</u>		
San Diego County	43,212,824	35,725
California	524,439,600	36,483
United States	4,399,998,035	34,618

Source: Market Statistics, Demographics USA - County Edition.

\* Data for 1995 reflects changes in methodology for calculating effective buying income which excludes certain sources of income.

## Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Del Mar and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

### **Visitor and Convention Activity**

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$4.4 billion in 1997, according to an estimate by the San Diego Convention and Visitors Bureau, up from \$4.0 billion in 1996. In 1997, San Diego County hosted 59 conventions and trade shows, attended by approximately 290,802 delegates, who spent approximately \$257,276,865.

### **Education**

Forty-three independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 10 unified, 27 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University; the University of California at San Diego, which, in terms of enrollment is the fifth largest school in the State; National University; the University of San Diego; Point Loma College; California State University - San Marcos; and United States International University.

## **APPENDIX B**

### **THE COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

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**INDEPENDENT AUDITORS' REPORT**

The Honorable Board of Supervisors of the  
County of San Diego:

We have audited the accompanying general purpose financial statements of the County of San Diego as of June 30, 1998 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the County of San Diego. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the pension trust fund (included in Trust and Agency), which statements reflect total assets constituting 67% of the Trust and Agency Fund Type at June 30, 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trust and Agency Fund Type, is based solely on the report of such other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditors, such general purpose financial statements present fairly, in all material respects, the financial position of the County of San Diego at June 30, 1998, and the results of its operations and the cash flows of its proprietary fund types, and the change in net assets of its pension trust fund and investment trust fund, for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 4.H. to the general purpose financial statements, in fiscal year 1998, the County of San Diego changed its method of accounting for its investment pool to conform with Statement of Governmental Accounting Standards No. 31 and restated the 1997 Totals (memorandum only) comparative financial information.

As discussed in Note 3 to the financial statements, the fair values of certain investments with an amount of \$526,246,115 have been estimated by management in the absence of readily ascertainable market values. We have reviewed the procedures used by management in arriving at the estimated values of such investments and have inspected underlying documentation, and, in the circumstances, believe the procedures are reasonable and the documentation appropriate. However, determination of the value of

these investments involves subjective judgment because the actual market values can be determined only by negotiation between the parties in sales transactions. The estimated value of the investments may differ from the values that would have been used had a ready market existed for the investments, and the differences could be material.

*Deloitte & Touche LLP*

October 9, 1998

**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 1998**  
**With Comparative Figures for June 30, 1997**  
**(In Thousands)**

	GOVERNMENTAL		FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
<b>ASSETS AND OTHER DEBITS</b>				
Equity in Pooled Cash and Investments	\$ 52,365	71,637	6,984	35,324
Cash with Fiscal Agent	231,746	67	21,673	1,076
Collections in Transit	500	591		
Imprest Cash	208	14		
Investments				
Taxes Receivable	242			
Accounts and Notes Receivable, Net	160,615	21,514	249	5,496
Prepaid Expense				
Due from Other Funds	103,600	8,669	28	16,248
Advances to Other Funds	689	157	561	
Inventory of Materials and Supplies	10,039	1,596		
Deposits with Others		752		7
Restricted Assets:				
Investments		103,049		
Fixed Assets, Net				
Amount Available in Debt Service Funds				
Amount to be Provided for Retirement of General Long-Term Debt				
<b>Total Assets and Other Debits</b>	<b>\$ 560,004</b>	<b>208,046</b>	<b>29,495</b>	<b>58,151</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
Liabilities:				
Accounts Payable	\$ 25,481	6,926		3,286
Accrued Payroll	19,706	1,129		
Accrued Interest				
Amount Due for Tax & Revenue Anticipation Notes	227,531			
Due to Other Funds	32,459	8,643	83	15,125
Obligations Under Securities Lending				
Due to Other Governments				
Advances from Other Funds		675	287	3,298
Amount Due Employees for Deferred Compensation				
Amount Due for Commercial Paper Notes				
Deferred Revenue	33,742	1,402		17,463
Long-Term Debt Payable				
<b>Total Liabilities</b>	<b>338,919</b>	<b>18,775</b>	<b>370</b>	<b>39,172</b>
Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	47,916	22,863		134
Reserved for Loans	7,277	13,262		
Reserved for Deposits with Others		54		
Reserved for Inactive Landfill Maintenance		103,049		
Reserved for Inventory of Materials and Supplies	10,039	149		
Reserved for Debt Service			29,125	
Reserved for Pool Participants				
Reserved for Employees' Pension Benefits				
Unreserved:				
Designated for Subsequent Years' Expenditures	11,543	87		
Undesignated	144,310	49,807		18,845
<b>Total Equity and Other Credits</b>	<b>221,085</b>	<b>189,271</b>	<b>29,125</b>	<b>18,979</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$ 560,004</b>	<b>208,046</b>	<b>29,495</b>	<b>58,151</b>

See Notes to Combined Financial Statements



**FINANCIAL REPORT OF SAN DIEGO COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1998  
With Comparative Figures for June 30, 1997  
(In Thousands)**

**STATEMENT 1A**

FUND TYPES		ACCOUNT GROUPS		TOTALS	
				MEMORANDUM	
54,983	54,058	1,388,046		1,663,397	1,679,886
		515,182		769,744	702,077
4	89	23,897		25,081	14,182
2	200	72		496	489
		3,662,817		3,662,817	3,026,868
		203,643		203,885	225,552
1,272	113	43,159		232,418	205,287
33				33	
1,390	8,149	29,930		168,014	201,453
2,739	476			4,622	10,971
110	2,686			14,431	13,682
				759	1,233
				103,049	
69,280	27,674	416	1,239,243	1,336,613	1,316,685
			29,125	29,125	30,483
			1,121,193	1,121,193	1,143,677
1,423	6,611	24,943		68,670	61,796
110				20,945	19,648
2				2	2
				227,531	212,297
4,451	4,587	102,666		168,014	201,453
		375,327		375,327	227,688
1,705		502,520		504,225	431,413
362				4,622	10,971
		275,416		275,416	216,128
		66,671		66,671	77,359
1,362				53,969	60,011
768	88,973		1,150,318	1,240,059	1,341,399
			1,239,243	1,239,243	1,168,090
40,825	25,766			66,591	71,672
78,805	(32,492)			46,313	26,679
				70,913	55,556
				20,539	23,964
				54	54
				103,049	
				10,188	10,959
				29,125	30,483
		1,013,500		1,013,500	1,057,295
		3,506,119		3,506,119	3,096,445
				11,630	14,575
				212,962	156,588

**FINANCIAL REPORT OF SAN DIEGO COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
Year Ended June 30, 1998  
With Comparative Figures for Year Ended June 30, 1997  
(In Thousands)**

**STATEMENT 1B**

	GENERAL FUND	REVENUE FUNDS	SERVICE FUNDS	PROJECTS FUNDS	TO GOVERNMENTAL FUNDS (MEMORANDUM ONLY)	
					1998	Restated 1997
<b>Revenues:</b>						
Taxes	\$ 284,970	20,330	381	522	306,203	297,314
Licenses, Permits and Franchises	21,034	7,278			28,312	28,118
Fines, Forfeitures and Penalties	21,849	1,058		6,489	29,396	22,972
Revenue from Use of Money and Property	26,236	12,792	2,001	7,939	48,968	31,089
Aid from Governmental Agencies:						
State	868,320	56,275		9,325	933,920	949,026
Federal	453,358	58,254		410	512,022	566,864
Other	23,303	9,606	1,943	391	35,243	20,639
Charges for Current Services	174,468	20,468		1,499	196,435	173,489
Other Revenue	15,966	1,782		1,074	18,822	27,327
<b>Total Revenues</b>	<b>1,889,504</b>	<b>187,843</b>	<b>4,325</b>	<b>27,649</b>	<b>2,109,321</b>	<b>2,116,838</b>
<b>Expenditures:</b>						
Current:						
General	181,031	3,434			184,465	186,861
Public Protection	535,863	8,722			544,585	509,142
Public Ways and Facilities	1,458	65,051			66,509	64,180
Health and Sanitation	281,363	13,504			294,867	268,400
Public Assistance	759,389	57,231			816,620	915,302
Education	270	9,827			10,097	9,375
Recreational and Cultural	8,094	1,215			9,309	7,210
Capital Outlay	4,226			86,893	91,119	74,368
Debt Service	14,249		83,901		98,150	91,914
<b>Total Expenditures</b>	<b>1,785,943</b>	<b>158,984</b>	<b>83,901</b>	<b>86,893</b>	<b>2,115,721</b>	<b>2,126,752</b>
Excess of Revenues Over (Under) Expenditures	103,561	28,859	(79,576)	(59,244)	(6,400)	(9,914)
<b>Other Financing Sources (Uses):</b>						
Sale of Fixed Assets		8		881	889	24
Issuance of Lease Purchases	4,226				4,226	6,653
Operating Transfers In	25,583	37,670	78,067	105,842	247,162	209,398
Operating Transfers (Out)	(85,367)	(58,972)	(7,120)	(89,729)	(241,188)	(272,000)
Long-Term Debt Proceeds		1,814	76,062		77,876	64,816
Transfers to Escrow Agent		(2,384)	(68,791)		(71,175)	(24,511)
<b>Total Other Financing Sources (Uses)</b>	<b>(55,558)</b>	<b>(21,864)</b>	<b>78,218</b>	<b>16,994</b>	<b>17,790</b>	<b>(15,620)</b>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	48,003	6,995	(1,358)	(42,250)	11,390	(25,534)
Fund Balances - Beginning of Year	121,970	79,216	30,483	60,510	292,179	320,410
Residual Equity Transfers In	57,448	103,148		719	161,315	(2,224)
Residual Equity Transfers (Out)	(5,653)				(5,653)	
Increase (Decrease) in Reserve for Inventory of Materials and Supplies	(683)	(88)			(771)	(473)
<b>Fund Balances - End of Year</b>	<b>21,082</b>	<b>189,271</b>	<b>29,125</b>	<b>18,979</b>	<b>458,460</b>	<b>292,179</b>

See Notes to Combined Financial Statements

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS  
ALL GOVERNMENTAL FUND TYPES  
Year Ended June 30, 1998  
(In Thousands)**

**STATEMENT 1C**

<b>Revenues:</b>			
Taxes	\$ 284,970	278,372	6,598
Licenses, Permits and Franchises	21,034	20,795	239
Fines, Forfeitures and Penalties	21,849	26,954	(5,105)
Revenue from Use of Money and Property	27,037	23,968	3,069
Aid from Other Governmental Agencies:			
State	868,320	938,002	(69,682)
Federal	453,358	525,453	(72,095)
Other	23,303	23,397	(94)
Charges for Current Services	174,468	161,055	13,413
Other Revenue	15,966	19,333	(3,367)
<b>Total Revenues</b>	<b>1,890,205</b>	<b>1,877,329</b>	<b>12,876</b>
<b>Expenditures:</b>			
Current:			
General	197,433	275,940	78,507
Public Protection	544,344	595,904	51,560
Public Ways and Facilities	2,214	3,188	974
Health and Sanitation	286,439	321,241	34,802
Public Assistance	761,278	891,998	130,720
Education	270	271	1
Recreational and Cultural	8,328	8,487	159
Capital Outlay			
Debt Service	14,249	14,249	
<b>Total Expenditures</b>	<b>1,845,535</b>	<b>1,837,188</b>	<b>8,347</b>
Excess of Revenues Over (Under) Expenditures	75,750	(93,949)	169,699
<b>Other Financing Sources (Uses):</b>			
Sale of Fixed Assets			
Operating Transfers In	25,583	29,383	(3,800)
Operating Transfers (Out)	(100,445)	(101,415)	970
Proceeds of Long-Term Debt		13,507	(13,507)
Encumbrances, Beginning of Year	33,290	33,290	
<b>Total Other Financing Sources (Uses)</b>	<b>(41,572)</b>	<b>(38,335)</b>	<b>3,237</b>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	34,178	(119,184)	153,362
Fund Balances - Beginning of Year	89,130	89,130	
Residual Equity Transfers In	57,448	57,448	
Residual Equity Transfers (Out)	(5,653)	(5,653)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	(683)		(683)
<b>Fund Balances - End of Year</b>	<b>135,292</b>	<b>135,292</b>	<b></b>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS**  
**ALL GOVERNMENTAL FUND TYPES**  
**Year Ended June 30, 1998**  
**(In Thousands)**

## STATEMENT 1C (Cont)

	Budgetary Basis	Budget	Actual
<b>Revenues:</b>			
Taxes	\$ 20,330	34,504	(14,174)
Licenses, Permits and Franchises	7,278	7,567	(289)
Fines, Forfeitures and Penalties	1,058	1,301	(243)
Revenue from Use of Money and Property	10,613	3,959	6,654
Aid from Other Governmental Agencies:			
State	56,275	78,889	(22,614)
Federal	58,254	98,228	(39,974)
Other	9,143	4,358	4,785
Charges for Current Services	20,468	27,127	(6,659)
Other Revenue	1,790	5,054	(3,264)
<b>Total Revenues</b>	<b>185,209</b>	<b>260,987</b>	<b>(75,778)</b>
<b>Expenditures:</b>			
Current:			
General	1,615	1,860	245
Public Protection	9,320	15,024	5,704
Public Ways and Facilities	75,342	134,718	59,376
Health and Sanitation	22,812	24,269	1,457
Public Assistance	57,231	86,239	29,008
Education	9,854	10,814	960
Recreational and Cultural	2,434	6,746	4,312
Capital Outlay			
Debt Service			
<b>Total Expenditures</b>	<b>178,608</b>	<b>279,670</b>	<b>101,062</b>
Excess of Revenues Over (Under) Expenditures	6,601	(18,683)	25,284
<b>Other Financing Sources (Uses):</b>			
Sale of Fixed Assets	8	100	(92)
Operating Transfers In	3,699	4,591	(892)
Operating Transfers (Out)	(28,126)	(36,073)	7,947
Proceeds of Long-Term Debt			
Encumbrances, Beginning of Year	21,989	21,989	
<b>Total Other Financing Sources</b>	<b>(2,439)</b>	<b>(2,493)</b>	<b>554</b>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	4,171	(23,076)	32,247
Fund Balances - Beginning of Year	60,358	60,358	
Residual Equity Transfers In	103,148	103,148	
Residual Equity Transfers(Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	(88)		(88)
<b>Fund Balances - End of Year</b>	<b>163,518</b>	<b>140,530</b>	<b>22,988</b>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS  
ALL GOVERNMENTAL FUND TYPES  
Year Ended June 30, 1998  
(In Thousands)**

STATEMENT 1C (Cont)

	GOVERNMENTAL FUNDS		
	Budget	Actual	Variance
<b>Revenues:</b>			
Taxes	\$ 381	308	73
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties			
Revenue from Use of Money and Property	60	103	(43)
Aid from Other Governmental Agencies:			
State			
Federal			
Other	1,943	1,921	22
Charges for Current Services			
Other Revenue			
<b>Total Revenues</b>	<b>2,384</b>	<b>2,332</b>	<b>52</b>
<b>Expenditures:</b>			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay			
Debt Service	44,607	44,633	26
<b>Total Expenditures</b>	<b>44,607</b>	<b>44,633</b>	<b>26</b>
Excess of Revenues Over (Under) Expenditures	(42,223)	(42,301)	78
<b>Other Financing Sources (Uses):</b>			
Sale of Fixed Assets			
Operating Transfers In	41,864	42,137	(273)
Operating Transfers (Out)			
Proceeds of Long-Term Debt			
Encumbrances, Beginning of Year			
<b>Total Other Financing Sources (Uses)</b>	<b>41,864</b>	<b>42,137</b>	<b>(273)</b>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(359)	(164)	(195)
Fund Balances - Beginning of Year	1,108	1,108	
Residual Equity Transfers In			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
<b>Fund Balances - End of Year</b>	<b>749</b>	<b>944</b>	<b>195</b>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS**  
**ALL GOVERNMENTAL FUND TYPES**  
**Year Ended June 30, 1998**  
**(In Thousands)**

## STATEMENT 1C (Cont)

	Budgetary Basis	Budget	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Taxes	\$ 522	17,151	(16,629)
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties	6,489	7,294	(805)
Revenue from Use of Money and Property	2,576	4,553	(1,977)
Aid from Other Governmental Agencies:			
State	9,325	14,271	(4,946)
Federal	410	2,150	(1,740)
Other	391	7,998	(7,607)
Charges for Current Services	1,499	2,215	(716)
Other Revenue	374	1,485	(1,111)
<b>Total Revenues</b>	<b>21,586</b>	<b>57,117</b>	<b>(35,531)</b>
<b>Expenditures:</b>			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay	102,557	203,992	107,435
Debt Service			
<b>Total Expenditures</b>	<b>102,557</b>	<b>203,992</b>	<b>107,435</b>
Excess of Revenues Over (Under) Expenditures	(80,971)	(152,875)	71,904
<b>Other Financing Sources (Uses):</b>			
Sale of Fixed Assets	881	3,887	(8,006)
Operating Transfers In	92,519	107,341	(14,822)
Operating Transfers (Out)	(29,823)	(29,827)	4
Proceeds of Long-Term Debt	16,172	29,658	(13,486)
Encumbrances, Beginning of Year	277	277	
<b>Total Other Financing Sources (Uses)</b>	<b>80,026</b>	<b>116,336</b>	<b>(36,310)</b>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(945)	(36,539)	35,594
Fund Balances - Beginning of Year	(375)	(375)	
Residual Equity Transfers In	719	719	
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
<b>Fund Balances - End of Year</b>	<b>(601)</b>	<b>36,165</b>	<b>35,594</b>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS  
ALL GOVERNMENTAL FUND TYPES  
Year Ended June 30, 1998  
(In Thousands)**

## STATEMENT 1C (Cont)

TOTALS (MEMORANDUM ONLY)			
<b>Revenues:</b>			
Taxes	\$ 306,203	330,335	(24,132)
Licenses, Permits and Franchises	28,312	28,362	(50)
Fines, Forfeitures and Penalties	29,396	35,549	(6,153)
Revenue from Use of Money and Property	40,286	32,583	7,703
Aid from Other Governmental Agencies:			
State	933,920	1,031,162	(97,242)
Federal	512,022	625,831	(113,809)
Other	34,780	37,674	(2,894)
Charges for Current Services	196,435	190,397	6,038
Other Revenue	18,130	25,872	(7,742)
	2,099,484	2,337,765	(238,281)
<b>Expenditures:</b>			
Current:			
General	199,048	277,800	78,752
Public Protection	553,664	610,928	57,264
Public Ways and Facilities	77,556	137,906	60,350
Health and Sanitation	309,251	345,510	36,259
Public Assistance	818,509	978,237	159,728
Education	10,124	11,085	961
Recreational and Cultural	10,762	15,233	4,471
Capital Outlay	102,557	209,992	107,435
Debt Service	58,856	58,882	26
	2,140,327	2,645,573	505,246
Excess of Revenues Over (Under) Expenditures	(40,843)	(307,808)	266,965
<b>Other Financing Sources (Uses):</b>			
Sale of Fixed Assets	889	8,987	(8,098)
Operating Transfers In	163,665	183,452	(19,787)
Operating Transfers (Out)	(158,394)	(167,315)	8,921
Proceeds of Long-Term Debt	16,172	43,165	(26,993)
Encumbrances, Beginning of Year	55,556	55,556	
	889	123,845	125,954
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	37,045	(183,963)	221,008
Fund Balances - Beginning of Year	150,221	150,221	
Residual Equity Transfers In	161,315	161,315	
Residual Equity Transfers(Out)	(5,653)	(5,653)	
Increase (Decrease) in: Reserve for Inventory of Materials and Supplies	(771)		(771)
	221,112	221,112	

See Notes to Combined Financial Statements

**COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
ALL PROPRIETARY FUND TYPES  
Year Ended June 30, 1998  
With Comparative Figures for Year Ended June 30, 1997  
(In Thousands)**

## STATEMENT 1D

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	1998	Restated 1997
<b>Operating Revenues:</b>				
Charges for Services	\$ 52,397	96,325	148,722	150,945
<b>Operating Expenses:</b>				
Salaries	6,496		6,496	9,068
Claims and Judgments		27,828	27,828	4,948
Cost of Materials		53,234	53,234	40,894
Repairs and Maintenance	1,783	3,653	5,436	40,797
Fuel		3,030	3,030	569
Equipment Rental	947		947	1,255
Sewage Processing	13,624		13,624	9,639
Contracted Services	21,764	150	21,914	29,451
Depreciation	3,444	3,128	6,572	6,179
Utilities	330		330	356
Other	5,328	952	6,280	10,805
<b>Total Operating Expenses</b>	<b>53,716</b>	<b>91,975</b>	<b>145,691</b>	<b>150,961</b>
Operating Income (Loss)	(1,319)	4,350	3,031	(3,016)
<b>Nonoperating Revenues:</b>				
Interest	4,033	1,972	6,005	7,142
Taxes	30		30	35
Grants	1,135		1,135	2,942
Gain on Disposal of Equipment	112,576		112,576	13
Other	90,671		90,671	21,992
<b>Total Nonoperating Revenues</b>	<b>208,445</b>	<b>1,972</b>	<b>210,417</b>	<b>32,124</b>
<b>Nonoperating Expenses:</b>				
Interest on Long-Term Debt	27	241	268	29
Loss on Disposal of Equipment	305	408	713	78
Equity Conveyed to Other Entities	3,456		3,456	
Other	25,438		25,438	120,444
<b>Total Nonoperating Expenses</b>	<b>29,226</b>	<b>649</b>	<b>29,875</b>	<b>120,551</b>
Nonoperating Income (Loss)	179,219	1,323	180,542	(88,427)
Net Income (Loss) Before Operating Transfers	177,900	5,673	183,573	(91,443)
Operating Transfers In		242	242	63,568
Operating Transfers (Out)	(5,221)	(995)	(6,216)	(966)
Net Income (Loss)	172,679	4,920	177,599	(28,841)
Depreciation on Grant Funded Fixed Assets	598		598	633
Increase (Decrease) in Retained Earnings	173,277	4,920	178,197	(28,208)
Retained Earnings				
Beginning Balance	63,578	(36,899)	26,679	54,887
Residual Equity Transfers (Out)	(158,050)	(513)	(158,563)	
<b>Retained Earnings</b>				
Ending Balance	\$ 78,805	(32,492)	46,313	26,679

See Notes to Combined Financial Statements



**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**Year Ended June 30, 1998**  
**With Comparative Figures for June 30, 1997**  
**(In Thousands)**

## STATEMENT 1E

<b>Cash Flows from Operating Activities:</b>				
Operating Income (Loss)	\$ (1,319)	4,350	3,031	(3,016)
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities:				
Depreciation	3,443	3,128	6,571	6,178
Decrease (Increase) in Accounts Receivable and Notes Receivable, Net	2,082	(91)	1,991	2,409
Decrease (Increase) in Prepaid Expense	(33)		(33)	
Decrease (Increase) in Due from Other Funds	25,556	(2,445)	23,111	(4,533)
Decrease (Increase) in Inventory of Materials and Supplies, Net	24	(235)	(211)	419
Increase (Decrease) in Accounts Payable	(3,044)	3,243	199	(3,204)
Increase (Decrease) in Accrued Payroll	(139)		(139)	26
Increase (Decrease) in Due to Other Funds	2,048	433	2,481	1,375
Increase (Decrease) in Due to Other Governments	(2,275)		(2,275)	623
Increase (Decrease) in Long-Term Debt Payable	(89,919)	7,848	(82,071)	19,164
Increase (Decrease) in Deferred Revenue	(1,845)		(1,845)	(99)
Other Revenue	90,700		90,700	22,006
Other Expense	(25,438)		(25,438)	(120,402)
<b>Net Cash Provided (Used) by Operating Activities</b>				
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Residual Equity Transfer In		3,059	3,059	2,131
Residual Equity Transfer (Out)	(158,050)	(513)	(158,563)	
Payments From Other Funds				1,091
Loan Repayment from Other Agency	40		40	20
Advances Made on Long-Term Loans		(928)	(928)	(385)
Grants	1,608		1,608	2,870
Subsidies Received from Other Funds				63,568
Transfers from (to) Other Funds	(5,221)	241	(4,980)	(515)
Residual Equity Conveyed to Other Entities	(3,436)		(3,436)	
Loans to Other Funds	(100)		(100)	(1,181)
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>				
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition of Fixed Assets	(1,773)	(6,087)	(7,860)	(10,727)
Proceeds from Sale of Equipment	163,237	181	163,418	274
Principal Paid on Long-Term Debt	(73)	(1,502)	(1,575)	(18)
Interest Paid on Long-Term Debt	(27)	(241)	(268)	(29)
Deposit with Others				1,923
Residual Equity Transfers In		47	47	
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>				
<b>Cash Flows from Investing Activities:</b>				
Interest			6,006	7,498
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	407	12,433	12,840	(12,534)
Cash and Cash Equivalents-Beginning of Year	54,582	41,914	96,496	109,030
<b>Cash and Cash Equivalents-End of Year</b>				
<b>Noncash Investing, Capital Financing Activities:</b>				
Acquisition of Fixed Assets From Donations	\$ 683		683	541
Transfer Fixed Assets from(to) Gen Fixed Assets	(38)	(501)	(539)	
Fixed Asset acquisition through Capital Lease		1,603	1,603	
Assumption of Capital Lease From General Long-Term Debt		(4,616)	(4,616)	
Residual Equity Transfer From General Fund		2,594	2,594	2131
<b>Total Noncash Investing Capital Financing Activities</b>		(920)	(75)	2,672

See Notes to Combined Financial Statements

(Cont)

**PENSION TRUST FUND**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**Year Ended June 30, 1998**  
**With Comparative Figures for Year Ended June 30, 1997**  
**(In Thousands)**

## STATEMENT 1F

	1998	1997
<b>ADDITIONS:</b>		
Contributions:		
Employer	\$ 51,811	61,555
Plan Members	6,757	6,214
<b>Total Contributions</b>	<b>58,568</b>	<b>67,769</b>
Investment Income:		
Net Appreciation (Depreciation) in Fair Market Value of Investments	325,722	401,935
Interest Income	79,300	45,801
Other Income	61,840	47,992
<b>Total Investment Income</b>	<b>466,862</b>	<b>495,728</b>
<b>Total Additions</b>	<b>525,430</b>	<b>563,497</b>
<b>DEDUCTIONS:</b>		
Benefits	110,538	103,716
Refunds of Contributions	670	1,068
Administrative Expense	4,548	3,891
<b>Total Deductions</b>	<b>115,756</b>	<b>108,675</b>
<b>Net Increase (Decrease)</b>	<b>409,674</b>	<b>454,822</b>
<b>Net Assets Held in Trust for Pension Benefits:</b>		
Beginning of Year	3,096,445	2,641,623
<b>End of Year</b>	<b>3,506,119</b>	<b>3,096,445</b>

**INVESTMENT TRUST FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**Year Ended June 30, 1998**  
**With Comparative Figures for Year Ended June 30, 1997**  
**(In Thousands)**

**STATEMENT 1G**

	1998	1997
<b>ADDITIONS:</b>		
Contributions on Pooled Investments	\$ 8,880,803	8,401,226
Interest and Investment Income	69,123	74,949
	<b>8,949,926</b>	<b>8,476,175</b>
<b>DEDUCTIONS:</b>		
	<b>9,015,937</b>	<b>8,521,411</b>
<b>Net Increase (Decrease)</b>	<b>(43,795)</b>	<b>(45,236)</b>
<b>Net Assets Held in Trust for Pool Participants:</b>		
Beginning of Year	1,057,295	1,102,531
<b>End of Year</b>	<b>1,013,500</b>	<b>1,057,295</b>

**NOTES TO COMBINED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 1998**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the County of San Diego (the "County") conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of the more significant of such policies.

**A. THE FINANCIAL REPORTING ENTITY**

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units. The component units, discussed in Note 1B are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

**B. INDIVIDUAL COMPONENT UNIT DISCLOSURES**

Blended component units are listed below. The first seven component units are legally separate entities which are governed by the San Diego County Board of Supervisors and are reported as if they were part of the primary government because they benefit the County exclusively. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. SANCAL is reported as if it was part of the primary government because its sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. Separate financial statements for the individual component units described above may be obtained from the County Chief Financial Officer/Auditor and Controller.

The first five entities listed below are included as special revenue funds, the sanitation districts as enterprise funds, the Redevelopment Agency, and SANCAL as capital projects and debt service funds, and SDCERA as a pension trust fund.

- County Service Areas
- Flood Control Districts
- Lighting Maintenance Districts
- Air Pollution Control District
- County of San Diego Housing Authority
- Sanitation Districts
- San Diego County Redevelopment Agency
- San Diego County Capital Asset Leasing Corporation
- San Diego County Employees' Retirement Association

**C. BASIS OF PRESENTATION**

The financial transactions of the County are recorded in individual funds and account groups. The various funds and account groups are reported by type in the financial statements. Amounts in the "Totals-Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line-items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals-Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the County.

The County uses the following fund categories, fund types, and account groups:

**Governmental Fund Types**

**General Fund** - To account for all financial resources except those required to be accounted for in another fund. The general fund is the County's operating fund.

**Special Revenue Funds** - To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included in these funds are the general funds of various component entities as described in Note 1B.

**Debt Service Fund** - To account for the accumulation of resources for the payment of principal and interest on general long-term debt.

**Capital Project Funds** - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

**Proprietary Fund Types**

**Enterprise Funds** - To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Internal Service Funds** - To account for the financing of goods or services provided by one department to other departments of the County, or to other governments, on a cost-reimbursement basis.

**Fiduciary Fund Types**

**Trust and Agency Funds** - To account for assets held by the County as a trustee or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust fund (San Diego County Employees' Retirement Association), investment trust fund and agency funds.

**Account Groups**

**General Fixed Assets Account Group** - To account for all fixed assets of the County, except those accounted for in the proprietary-fund types.

**General Long-Term Debt Account Group** - To account for all long-term obligations of the County, except those accounted for in the proprietary-fund types.

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues which are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund and the investment trust fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

**E. PROPERTY TAXES**

Real property taxes are levied on October 15 against owners of record at January 1. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. At January 1 all property is subject to lien for unpaid taxes. Secured (real) property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. Delinquent secured property taxes of all taxing jurisdictions and the subsequent collections of these delinquent taxes are held in an agency fund.

**F. ASSETS, LIABILITIES, AND FUND EQUITY**

**Cash and Investments**

Investments in County funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fair value for certain securities in the County's cash and investment pool were determined by using analytical pricing techniques based on interest rate sensitivity (See Note 3A). These securities were purchased to provide stability of yield during periods of interest rate declines and have interest rates that either vary inversely with current market rates of interest or have interest rates that are determined based on the spread relationship between two indices. Accordingly, such securities, which approximate 32 percent of the total "Equity in pooled cash and investments" account, are subject to market risk during times of increasing rates and could result in a loss of principal if sold during such a period. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in Pooled Cash and Investments," "Collections in Transit," and "Imprest Cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse repurchase agreements are not considered cash equivalents for purposes of cash flow reporting.

**Inventories**

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds of the County Library and Special Districts as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

### **Fixed Assets**

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation.

Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

Structure and Improvements	5-50 years
Equipment	4-20 years

### **Long-Term Liabilities**

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately \$69.4 million for the governmental fund types as of June 30, 1998, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

### **Reservation/Designation of Fund Equity**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

### **Comparative Data/Totals-Memorandum Only**

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. Also, certain of the prior year amounts have been reclassified to conform with the current year financial statement presentations.



**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

**General Budget Policies**

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for this entity are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Departmental intrafund expenditure transfers do not have the budgetary status of legal appropriations. Therefore, variances between estimated transfers and actual transfers are not displayed in the general purpose financial statements, but are displayed as a general fund schedule within the Comprehensive Annual Financial Report. All amendments to the adopted budget require Board approval and, as such, reported budget figures are as originally adopted or subsequently amended by the Board. Supplemental appropriations during the year ended June 30, 1998, amounted to \$ 211.3 million in the general fund.

## FINANCIAL REPORT OF SAN DIEGO COUNTY

### B. BUDGETARY TO GAAP BASIS RECONCILIATION

The following schedule is a reconciliation of the budgetary and GAAP fund balances (In Thousands):

#### BUDGETARY TO GAAP BASIS RECONCILIATION

	Budgetary Basis	GAAP Basis	GAAP Basis	Budgetary Basis
Fund Balance-Budgetary Basis	\$174,420	167,589	749	(601)
Encumbrances Outstanding at Year-End	47,916	22,863		134
Fair Value Change in Investment	(1,251)	(1,296)	(18)	(213)
Fund Balances-Non Budgeted Funds		115	28,394	19,659
Fund Balances - GAAP Basis	\$221,085	189,271	29,125	18,979

### C. FUND DEFICITS

The following funds have an accumulated deficit at June 30, 1998 (In Thousands):

#### Special Revenue Funds

Housing and Community Development (HCD) \$ 8

#### Capital Projects Funds

San Diego County Redevelopment Agency (SDCRA) \$ 1,809

#### Enterprise Funds

Transit \$ 83

#### Internal Service Funds

Risk Financing \$57,210

The deficit within the Housing and Community Development fund is due to the recognition of fair value changes in the value of investments. This deficit will be reduced as securities mature. The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit within the Transit fund is due to inadequate cost recovery from user fees and the recognition of fair value changes in the value of investments. This deficit will be reduced in future years as securities mature and user fees are adjusted to cover costs. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. This deficit is expected to be reduced over a 10 year period beginning July 1, 1997, through increased rates to County departments and reduced claim experience through increased risk management.

**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. EQUITY IN POOLED CASH AND INVESTMENTS, CASH, INVESTMENTS, AND OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS**

The County maintains a cash and investment pool that is available for use by all funds of the County as well as the funds of other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 112, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-5211.

Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the general fund of the County. Such interest has been recorded as revenue in the general fund.

"Cash with Fiscal Agents," represents amounts on deposit with trustees for the SANCAL, San Diego County Housing Authority, SDCERA, County revolving funds, and for repayment of General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Waste Site Management Fund investments, the Pension Trust Fund investments and bonds held for other agencies.

Deposits: At year-end the carrying amount of the County's deposits was \$792,895,000 and the balance per various financial institutions was \$792,684,000. Of the balance in financial institutions, \$986,000 was covered by federal deposit insurance and \$779,056,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount \$205,542,000 was held by the County or its agent in the County's name and \$573,514,000 was held by the depository's trust department or agent in the County's name. \$12,642,000 was uncollateralized and uninsured. These securities are held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. (In Thousands) Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the

## FINANCIAL REPORT OF SAN DIEGO COUNTY

securities are held by counterparty's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 1998. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

<b>Investments - Categorized</b>			
Bankers Acceptances	\$ 16,315	133,515	149,830
Repurchase Agreements	205,000	14,868	219,868
Commercial Paper	230,817		230,817
U.S. Government Securities	1,050,529		1,050,529
Negotiable certificates of deposit	471,874		471,874
Corporate notes	100,137		100,137
Corporate bonds	603,974	210,058	814,032
Common and preferred stock	1,688,446		1,688,446
<b>Investments held by the County for other agencies:</b>			
U.S. Government Securities	124		124
Corporate bonds	47		47
Common stock	1		1
<b>Subtotal</b>	<b>4,367,264</b>	<b>358,441</b>	<b>4,725,705</b>
<b>Investments - Not Categorized</b>			
<b>Investments held by broker dealers under securities loans:</b>			
U.S. Government securities			132,776
Corporate bonds			69,629
Common and preferred stock			163,462
Mutual Funds			146,767
Real Estate Equity			167,773
<b>TOTAL INVESTMENTS</b>			<b>\$5,406,112</b>

The market value of certain U.S. Government securities, negotiable certificates of deposit and corporate notes held in the County's cash and investment pool were not readily ascertainable and could only be determined by negotiation between the parties in sales transactions. Consequently, estimates for the June 30, 1998, fair values of the securities described above were determined by the use of analytical pricing techniques based on interest rate sensitivity.

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are involuntary pool participants in the County Treasurer's investment pool and represent 91.9 percent of the total pooled cash and investments on hand at June 30, 1998.

**Reverse Repurchase Agreements:** State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 1998. Due to significantly higher cash flows and market conditions at certain times during the year, the County's investments in repurchase agreements increased significantly and were substantially higher at those times.

## FINANCIAL REPORT OF SAN DIEGO COUNTY

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities can not be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

### B. RESTRICTED ASSETS-INVESTMENTS

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Waste Site Special Revenue Fund.

### C. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 1998.

General Fund:	
General Fund Revenues	\$ 745,189
Federal and State Grants	3,055
Special Revenue Funds:	
Special Revenue Fund Revenues	75,094
Special Revenue State & Federal Grants	81
Capital Projects Funds:	
Lease Revenue Bonds	174,249
Certificates of Participation	241,575
Total	\$1,239,243

# FINANCIAL REPORT OF SAN DIEGO COUNTY

## Summary of Changes in General Fixed Assets by Class For the Year Ended June 30, 1998 (In Thousands)

	Balance, 7/1/97	Additions	Deletions	Balance, 6/30/98
Land	\$ 171,220	21,117	368	191,969
Structures & Improvements	414,752	81,486	9,512	486,726
Equipment	192,464	12,117	96,469	108,112
Construction in Progress	389,654	69,578	6,796	452,436
Total	\$1,168,090	184,298	113,145	1,239,243

### D. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 1998 (In Thousands):

	Cost	Accumulated Depreciation
Land	\$ 7,478	
Structures & Improvements	87,003	
Equipment	8,654	40,952
Construction in Progress	3,770	
Total	106,905	40,952
Less Accumulated Depreciation	(37,625)	(13,288)
Net	\$69,280	27,674

### E. LEASE COMMITMENTS

The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several noncancellable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows (In Thousands):


Year	Amount
1998/99	\$ 5,508
1999/2000	4,137
2000/01	2,152
2001/02	1,218
2002/03	1,018
Thereafter	11,936
Total	\$25,969

## FINANCIAL REPORT OF SAN DIEGO COUNTY


Total rental expense for all real property operating leases for the year ended June 30, 1998, was approximately \$14.9 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 1998, was approximately \$7.5 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the General Fixed Asset Account Group and is reflected as a liability in the General Long-Term Debt Account Group. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

	
Structures and Improvements	\$113,138
Equipment	39,034
Total	\$152,172

Future minimum lease payments under capital leases consisted of the following at June 30, 1998 (In Thousands):

	
1998/99	\$ 15,379
1999/00	14,655
2000/01	14,471
2001/02	13,710
2002/03	13,697
Thereafter	183,153
Total minimum Lease Payments	255,065
Less: Amount representing Interest	(102,893)
Net Lease Payments	\$152,172

# FINANCIAL REPORT OF SAN DIEGO COUNTY

## F. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 1998, consists of certificates of participation, capital lease obligations accounted for in accordance with NCGA Statement 5 (See Note 3E), pension obligation bonds, revenue bonds, contracts/loans payable, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (In Thousands):

Description			1998	
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1989 Certificates of Participation issued November, 1989	6.20 - 7.10%	2009	\$24,433	\$16,788
1991 Certificates of Participation issued September, 1991	4.80 - 6.50%	2007	38,045	26,785
1993 Certificates of Participation issued March, 1993	3.00 - 5.75%	2013	7,640	6,615
1993 Certificates of Participation issued March, 1993	3.25 - 5.10%	2007	26,085	20,290
1993 Certificates of Participation issued May, 1993	2.50 - 5.625%	2012	203,400	158,225
1996 Certificates of Participation issued May, 1996	4.30 - 5.50%	2018	52,230	52,230
1996 Certificates of Participation issued December, 1996	4.00 - 6.00%	2019	37,690	37,690
1997 Certificates of Participation issued June, 1997	4.00 - 4.80%	2004	28,035	25,040
1997 Certificates of Participation issued July, 1997	4.00 - 5.00%	2025	80,675	80,675
<b>Total Certificates of Participation</b>			<b>498,233</b>	<b>424,338</b>
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning October, 1991	4.60 - 6.36%	2019	46,965	42,100
San Diego Regional Building Authority Lease beginning July, 1993	4.00 - 7.56%	2023	71,630	66,830
Third Party Financing Leases:				
Motorola Corporation Lease beginning December 1995	5.65%	2011	39,772	36,020
Others				
various beginning dates from December, 1991 to the present	4.54 - 8.00%	1996 - 2007	11,867	7,222
<b>Total Capitalized Leases</b>			<b>170,234</b>	<b>152,172</b>



# FINANCIAL REPORT OF SAN DIEGO COUNTY

<b>Other Long-Term Obligations:</b>					
Pitney Bowes	4.78%	2003	\$ 1,600	\$ 1,600	
Calif. Integrated Waste Mgmt Board	5.83 5.87%	2016	1,260	1,260	
<b>Total Other Long-Term Obligations</b>			<b>2,860</b>	<b>2,860</b>	
<b>Taxable Pension Obligation Bonds</b>					
Series A	4.70 6.60%	2007	430,430	395,475	
<b>Revenue Bonds</b>					
Redevelopment Agency Series 1995	4.75 6.75%	2020	5,100	5,035	
<b>Total</b>			<b>1,106,857</b>	<b>979,880</b>	
<b>Accumulated Unpaid Employee</b>					
Leave Benefits				69,438	
Inactive Landfill Closure				101,000	
<b>Total General Long-Term Debt</b>				<b>\$1,150,318</b>	

The certificates of participation of the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 1998, are summarized as follows (In Thousands):

<b>Lease Revenue Bonds/Certificates of Participation</b>				
	\$ 420,338	80,675	76,675	424,338
Capital Lease Obligations	169,275	4,226	21,329	152,172
Contracts/Loans Payable		2,860		2,860
Pension Obligation Bonds	414,435		18,960	395,475
Redevelopment Agency Revenue Bonds	5,100		65	5,035
Arbitrage Rebate	124		124	0
<b>Accumulated Unpaid Employee</b>				
Leave Benefits	66,384	3,054		69,438
Inactive Landfill Closure	98,504	2,496		101,000
<b>Total</b>	<b>\$1,174,160</b>	<b>93,311</b>	<b>117,153</b>	<b>1,150,318</b>

## FINANCIAL REPORT OF SAN DIEGO COUNTY

The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 1998 (In Thousands). Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to timing of payments.

Year	Principal	Interest	Other	Total	Unpaid	Total
1999	\$ 42,409	15,379	329	46,427	395	104,939
2000	47,061	14,655	504	48,756	406	111,382
2001	47,369	14,471	499	51,195	411	113,945
2002	47,610	13,710	495	53,753	420	115,988
2003	47,545	13,697	490	56,448	424	118,604
2004-2008	202,383	67,352	757	281,541	2,127	554,160
2009-2013	98,210	57,091	474		2,164	157,939
2014-2018	49,338	36,687	234		2,192	88,451
2019-2023	31,724	22,023			1,331	55,078
2024-2026	14,951					14,951
Total	\$628,600	255,065	3,782	538,120	9,370	1,435,437

### Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 1998, \$119.1 million of bonds outstanding are considered defeased.

### Advance Refunding of Long-Term Debt

#### San Diego County Capital Asset Leasing Corporation (SANCAL)

On July 15, 1997, SANCAL issued \$80.7 million in Certificates of Participation (COP) with an average interest rate of 5.4 percent to advance refund \$58.5 million of COP issued by SANCAL in 1994 with an average interest rate of 6.4 percent and \$6 million in COP issued by the San Diego Regional Building Authority (the "Authority") in 1994 with an average interest rate of 6.4 percent. The COP issued by the Authority was secured by a long-term capital lease between the County and the Authority. The net proceeds of \$76 million (less \$2.8 million in bond discount and after payment of \$1.9 million for bond insurance, underwriting fees, and other issuance costs) were used to purchase \$71.2 million in U.S. government securities and to fund certain reserves for the COP.

Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the respective debt issues cited above. As a result, the SANCAL 1994 COP and the Authority's 1994 COP are considered defeased. The liability for those COP issued by SANCAL and the long-term capital lease between the County and the Authority securing the Authority's COP have been removed from the general long-term debt account group.

SANCAL advance refunded SANCAL's 1994 COP and the Authority's 1994 COP cited above to achieve short-term budgetary savings to the County and to reduce the total debt service payments over the next 29 years by approximately \$2.3 million and to obtain an economic gain (difference between the present values on the old and new debt) of approximately \$1.7 million.

Significant Long-Term Capital Lease

In November 1997, the County entered into a long-term capital lease with Koch Financial Corporation to finance the acquisition and construction of lighting and mechanical equipment for various County facilities. The net present value of the lease is \$3.17 million with various interest rates ranging from 4.5 to 4.7 percent and terminating in 2006.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post closure costs for these landfills, to include facilities maintenance and groundwater monitoring over a 30 year period, is estimated at \$101 million in current year costs. This amount has been recorded in the general long-term debt account group. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves created from the sale of the solid waste system as described in Note 4B.

**G. PROPRIETARY FUND TYPES LONG-TERM DEBT**

Proprietary fund types long-term debt consists of revenue bonds, loans payable, contracts payable, capital leases and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the district without limit as to rate or amount for the

# FINANCIAL REPORT OF SAN DIEGO COUNTY

purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of Proprietary Fund Types Long-Term Debt is as follows (In Thousands):

Proprietary Fund Types Long-Term Debt				
Revenue Bonds:				
Alpine Sanitation 1970A	6.70 - 7.00%	2001	\$ 285	\$ 85
Loans:				
Julian Sanitation	5.3%	2003	61	20
Capital Leases:				
Mail/Print/Records ISF				
Koch Financial	4.73%	2002	166	166
Pitney Bowes	4.62%	2003	249	249
Fleet ISF:				
Koch Financial	4.88 - 5.63%	2002	5,803	4,302
Total			6,564	4,822
Contract Payable Spring Valley Sanitation District				345
Unpaid Accumulated Employee Leave Benefits				318
Total Proprietary Fund Types Long-Term Debt				\$5,485

The following is a schedule of debt service requirements to maturity, including interest, for Proprietary Fund Types Revenue Bonds, Capital Leases, and Loans Outstanding at June 30, 1998. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments (In Thousands).

Year	Revenue Bonds	Capital Leases	Loans	Total
1999	\$25	5	2,024	2,054
2000	24	4	1,830	1,858
2001	22	5	1,130	1,157
2002	26	4	285	315
2003		5	95	100

## FINANCIAL REPORT OF SAN DIEGO COUNTY

### H. SPECIAL ASSESSMENT DEBT

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is \$21.8 million at June 30, 1998.

### I. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 1998 were (In Thousands):

General Funds:	\$103,600	32,459
Special Revenue Funds:		
Road Fund	3,176	965
Inactive Waste Site	20	300
Lighting District	26	31
Air Pollution District	455	88
County Library Fund	34	93
Asset Forfeiture Program Fund	30	51
Inmate Welfare Program	234	224
HCD	4,094	5,018
Cable TV Fund	14	13
Park Land Dedication	69	250
Trial Court Operations		16
County Service Area Funds	125	641
Flood Control District Funds	27	210
Housing Authority Fund	362	740
Other Special District Funds	3	3
Total Special Revenue Funds	8,669	8,643
Debt Service Funds:		
Pension		83
Nonprofit Corporation Funds	16	
Redevelopment Agency Funds	12	
Total Debt Service Funds	28	83

### I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

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## FINANCIAL REPORT OF SAN DIEGO COUNTY

### I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

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General Fund: \$ 689

Special Revenue Funds:

County Service Area Funds		\$675
Flood Control District Funds	157	
Total Special Revenue Funds	157	675

Debt Service Funds:

Nonprofit Corporation Funds	561	
Redevelopment Agency Funds		287
Total Debt Service Funds	561	287

Capital Projects Funds:

Redevelopment Agency Funds		3,298
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Enterprise Funds:

Airport Fund	2,604	
Sanitation Districts Fund	135	362
Solid Waste		
Total Enterprise Funds	2,739	362

Internal Service Funds:

Special District Loans Funds	476	
Total Internal Services Funds	476	

Total Advances To -

Advances From	\$4,622	\$4,622
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### J. RESIDUAL EQUITY TRANSFERS

Residual Equity transfers consisted primarily of transfers from the dissolution of the Solid Waste Enterprise Fund to the General Fund and the Inactive Waste Site Special Revenue Fund. Total residual equity transfers in \$161.3 million do not equal the residual equity out transfers of \$164.2 million. The difference of \$2.9 million reflects additions to contributed capital to the Fleet ISF from the General Fund of \$5.6 million and the reduction of contributed capital for the Road and Communication Equipment ISF of \$2.7 million which was transferred to the General Fund.

# FINANCIAL REPORT OF SAN DIEGO COUNTY

## K. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains four Enterprise Funds which provide airport, liquid and solid waste, and transit services. Segment information for the year ended June 30, 1998, for those funds and eight sanitation districts for which the Board of Supervisors has oversight responsibility was as follows (In Thousands):

	Airport	Liquid Waste	Transit	Solid Waste	Sanitation Districts	Total
Operating Revenue	\$ 4,261	\$4,430	\$8,909	\$15,263	\$19,534	\$52,397
Depreciation	734	10	598	585	1,517	3,444
Operating Income (Loss)	(544)	(156)	(711)	(1,921)	2,013	(1,319)
Tax Revenue	-	-	-	-	30	30
Grant Revenue	650	-	-	485	-	1,135
Other Nonoperating Revenue	360	36	188	204,083	2,613	207,280
Nonoperating Expenses	65	227	-	25,438	3,496	29,226
Nonoperating Income or (Loss)	945	(191)	188	179,130	853	179,219
Net Income (Loss)	334	(507)	(523)	172,248	1,127	172,679
Capital Contributions	-	-	(45)	(5,708)	605	(5,148)
Plant Property and Equipment:						
Additions	358	54	-	807	1,244	2,463
Deletions	143	393	45	76,511	140	77,232
Net Working Capital	8,798	892	(83)	-	41,511	51,118
Total Assets	28,824	1,229	6,441	-	93,319	129,813
Total Equity	28,331	796	2,279	-	88,224	119,630
Long-Term Liabilities	106	212	-	-	450	768

## L. CONTRIBUTED CAPITAL

During fiscal year 1997/98, contributed capital increased or decreased by the following amounts (In Thousands):

### Enterprise Funds

	Airport	Liquid Waste	Transit	Solid Waste	Sanitation Districts
Capital Grants	\$		(45)	(139)	
Developer's Contributions					605
Government's Contributions				(5,569)	
Total Additions (Reductions)	-	-	(45)	(5,708)	605
Accumulated Depreciation on Grant Funded Fixed Assets			(5,168)		
Contributed Capital, July 1	15,922	695	7,575	5,708	21,241
Contributed Capital, June 30	\$15,922	695	2,362	-	21,846



# FINANCIAL REPORT OF SAN DIEGO COUNTY

## Internal Service Funds

[REDACTED]									
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**Governments' Contributions**

Total Additions						7,616			
Total (Reductions)	\$(2,928)		9			(4,616)	574	655	
Contributed Capital, July 1	12,469	1,171	887	-	4	10,580		25,111	
Contributed Capital, June 30	\$ 9,541	1,171	896	-	4	13,580	574	25,766	

**M. Equity Conveyed to Other Entities**

In March 1998, two sanitation districts, 4-S Ranch and Rancho Cielo, were dissolved. The remaining equity in these districts was conveyed to Olivenhain Municipal Water District, which assumed responsibility for sewer services previously provided by the dissolved districts.

**4. OTHER NOTE DISCLOSURES**

**A. COMMITMENTS AND CONTINGENCIES**

**(1) Litigation**

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4C, the County has a potential liability of \$10.6 to \$14.0 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 1998.

**(2) Unrecorded Leave Benefits**

County employees have unrecorded accumulated benefits of approximately \$90.6 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or General Long-Term Debt Account Group as described in Note 1F.

**(3) Tax and Revenue Anticipation Notes**

At June 30, 1998, \$225 million of Tax and Revenue Anticipation Notes issued during fiscal year 1997/98 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 1998, and subsequently used to redeem the notes on September 30, 1998. On July 1, 1998, the County issued \$175 million of Tax and Revenue Anticipation notes to finance fiscal year 1998/99 General Fund cash flow requirements. The issues will be redeemed on September 30, 1999.

**(4) Teeter Obligation Commercial Paper Notes**

From November 1995 through June 1998, the County issued \$42.2 million in taxable and \$130.2 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 1998, the outstanding balances of CP were \$19.7 and \$47.0 million for taxable and tax-exempt notes, respectively.

**(5) Third Party Debt**

**Mortgage Revenue Bonds**

Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and December 1996, the County issued \$39.2 million of Mortgage Revenue Bonds of which \$37.5 million were still outstanding as of June 30, 1998.

**Certificates of Participation**

Certificates of Participation were issued to refund the California Health Facilities Financing Authority Insured Hospital Revenue Bonds Series 1989A and Series 1991A and to finance a portion of a major capital facilities improvement to Sharp Memorial Hospital's Special Intensive Care Unit, Cardiac Catheterization Laboratories and patient rooms. The County entered into an installment purchase agreement with the San Diego Hospital Association and Sharp Chula Vista Medical Center to issue \$112 million of Certificates of Participation on April 1998 of which \$112 million were still outstanding as of June 30, 1998.

**Industrial Development Revenue Bonds**

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued \$3.5 million of Industrial Development Revenue Bonds in October 1987 of which \$2.4 million were still outstanding as of June 30, 1998.

Mortgage Revenue Bonds, Certificates of Participation and Industrial Development Revenue Bonds as described above, together with interest thereon, are limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, and irrevocable surety bonds. In the opinion of County officials, these bonds are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the General Long-Term Debt Account Group.

**(6) Federal Programs**

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 1997, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

**(7) SDCERA**

SDCERA is party to managed future contracts, financial instruments with off-balance sheet risk, to generate earnings and to hedge the investments in fixed income securities and common stocks, thereby reducing its own exposure to fluctuations in market conditions. These contracts include, but are not limited to contracts for delayed delivery of securities, commodities or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contract. The risk of accounting loss from this off-balance sheet financial instrument includes the credit risks and the possibility that future changes in market prices may make such a financial instrument less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling \$53.8 million.

**B. SALE OF SOLID WASTE SYSTEM**

In 1991, the County entered into a series of contracts for the construction and operation of a large scale waste processing facility in the City of San Marcos (the "North County Recycling Center"). The majority of the costs of the North County Recycling Center were financed in 1991 by the issuance of \$134.1 million Solid Waste Revenue Bonds (the "NCRC Bonds") by the California Pollution Control Financing Authority. In connection with the development of the North County Recycling Center and the issuance of the NCRC Bonds, the County entered into a service agreement (the "Service Agreement") with North County Resource Recovery Associates ("NCRRA"), the owner/operator of the North County Recycling Center, which required the County to deliver (or cause the delivery of) specified amounts of solid waste to the North County Recycling Center, and to pay a service fee whether or not such waste was delivered. In addition to the Service Agreement, the County also entered into an agreement (the "Consent and Agreement") with the issuer of the letter of credit covering the payment of principal and interest on the NCRC Bonds.

Within eighteen months of opening the plant, three outstanding factors concerning the Facility's operation had the effect of placing considerable financial stress on the Solid Waste System. These factors included the service fee payment obligation under the Service Agreement, the minimum solid waste delivery commitment under the Agreement, and the declining waste delivery tonnage to the Solid Waste System. Since the bonds were issued, the total amount of solid waste generated declined significantly below initial projections and several cities in the County have committed to disposal outside the System. Additionally, litigation involving compliance with the conditional use permit for the San Marcos landfill was adjudicated with the result that the San Marcos facility became non-operational. Litigation pending against the County sought a permanent closure of the facility. In July 1996, the County undertook various actions to terminate the Service Agreement with NCRRA.

In December 1996, the Board of Supervisors authorized the divestiture of the Solid Waste System and in June 1997 a payment of \$120.3 million was made to allow NCRAA to defease the aforementioned Solid Waste Revenue Bonds. In August 1997, as a result of competitive bidding, the County entered into a contract of sale with Allied Waste Industries, Inc. The sale included the transfer of title to all active landfills, title to the NCRC, and the transfer of all landfill closure and post closure liabilities. Cash proceeds of \$179.1 million were received consisting of \$163.2 million from the purchaser and \$15.9 million in held in trust as a post closure liability reserve. This sale, including the gain on the sale of fixed assets, has been recorded in the Solid Waste Enterprise Fund. Of the sale proceeds received, the Board of Supervisors established an ordinance to transfer \$103 million to a separate fund to be used solely to satisfy post closure liabilities on inactive landfills over the next 30 year period. Additionally, \$56 million was transferred to the General Fund to increase cash reserves in that fund. Subsequent to these transactions, the Solid Waste Enterprise Fund was dissolved.

**C. RISK MANAGEMENT**

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and workers' compensation. The County purchases insurance for property damage, certain casualty claims, and loss of money up to \$10,000 per selected site locations. The amount and coverage remains the same as in the prior year. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the outstanding liabilities at June 30, 1997. The actuarial estimate was based partially on the experience of similar governmental entities and included the effects of specific incremental claim adjustment expenses, salvage and subrogation if such factors could be estimated. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 1998, the amount of these liabilities including an estimate for claims incurred but not reported, was estimated at \$84.2 million, including \$28.4 million in public liability and \$55.8 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as

## FINANCIAL REPORT OF SAN DIEGO COUNTY

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a percentage of payroll beginning fiscal year 1996/97. Changes in the balances of claim liabilities for fiscal year 1996/97 and 1997/98 were as follows (In Thousands):

	<u>Beginning-of- Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
1996/97	\$93,527	\$ 229	\$(17,346)	\$76,410
1997/98	76,410	21,809	(13,962)	84,257

### D. JOINT VENTURE

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one half of the total required funding each year. The County, by agreement, also provides one half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 1997/98 fiscal year were \$373,906. The organization had a cumulative surplus of \$453,098 at June 30, 1998. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

### E. JOINTLY GOVERNED ORGANIZATIONS

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Consortium & Private Industry Council (the "Consortium"). The Consortium's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Consortium is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consists of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

**F. SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM**

**(1) Plan Description**

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 1495 Pacific Highway, Suite 400, San Diego, California 92101 or by calling (619) 515-6800.

**(2) Basis of Accounting and Fair Value of Investments (See Notes 1D and 1F, respectively).**

**(3) Funding Policy**

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 7.12% for general members and 10.24% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 1997/98 rates, expressed as a percentage of covered payroll, are 3.48% for general members and 7.84% for safety members.

**(4) Annual Pension Cost**

For Fiscal Year 1997/98, the annual pension cost of \$24.3 million for the SDCERA pension plan was equal to the County's required and actual contributions. The required contribution was determined as part of the June 30, 1996, actuarial evaluation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return; (b) projected salary increases of 5.0%. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed five year period.

# FINANCIAL REPORT OF SAN DIEGO COUNTY

## (5) Schedule of Funding Progress (In Millions):

Year	Actual	Unfunded	Unpaid	Unpaid	Unpaid	Unpaid
6/30/95	\$2,172.9	\$2,148.6	\$0	101.1%	\$550.7	0%
6/30/96	2,370.5	2,340.7	0	101.3%	561.7	0%
6/30/97	2,688.1	2,487.9	0	108.0%	581.4	0%

## (6) Three-Year Trend Information (In Thousands):

6/30/96	\$37,534	100%	\$0
6/30/97	23,269	100%	0
6/30/98	24,320	100%	0

## (7) Postretirement Health Care Benefits:

Depending on the availability of fund earnings, SDCERA provides postretirement health care benefits on a pay as you go basis for retirees who have had at least ten years employment with the County. SDCERA contributes health insurance premiums for five sponsored health maintenance organizations of \$160 per month for each retiree under the age of 65 with 20 or more years of service and \$83 per month for each retiree over the age of 65 with 10 or more years of service plus a cost of living adjustment based on years since retirement. Premium amounts in excess of these amounts are paid by the retiree. SDCERA also reimburses a fixed amount of \$31 per month for a Medicare supplement for each retiree over age 65. State statutes governing County retirement systems provide authority for SDCERA, with the consent of the SDCERA Board of Directors, to make such payments from interest earnings in excess of interest required to be credited to specific statutory reserves. SDCERA is not obligated to provide such benefits in future years and retired employees have no vested rights to receive such benefits. Accordingly, these postretirement health care benefits are not defined benefits as are pension plan benefits.

Approximately 7,600 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated \$7 million for fiscal year 1997/98. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately \$133 million at June 30, 1998, a \$105 million increase from the previous fiscal year.

(8) Equity and Bond Swaps and Futures Contracts:

SDCERA utilizes various financial instruments such as equity and bond interest rate swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate and SDCERA management believes such investments offer significant advantages over the direct investment in securities including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

G. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participants' rights under the plan are equal to the fair value of the deferred account for each participant.

The assets and liabilities of the deferred compensation plan are accounted for in an agency fund of the County. Total assets of the plan at June 30, 1998, are valued at \$275.4 million and are reported at fair value.

It is the opinion of the County legal counsel that the County has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

Pursuant to governmental regulations affecting deferred compensation plans, the County intends to amend this plan in fiscal year 1998/99. See discussion of Governmental Standards Statement No. 32 in note 4H.

H. NEW GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board has issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which establishes accounting and reporting standards for certain investments held by internal investment pools and all investments held by external investment pools. The County has adopted the new standards for the



## FINANCIAL REPORT OF SAN DIEGO COUNTY

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current year and established an "Investment Trust Fund." The adoption of this standard has resulted in a restatement of prior years' financial statement amounts to provide comparability. The effects of these restatements by fund type as of June 30, 1997 and 1996, are as follows (In Thousands):

1997 <u>Fund</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Fund Equity</u>
General	\$120	\$	\$ 120
Special Revenue	(953)		(953)
Debt Service	(509)		(509)
Capital Projects	(3,382)		(3,382)
Enterprise	672		672
Internal Service	(1,485)		(1,485)
Trust and Agency	(72,497)	(1,129,792)	1,057,295

1996 <u>Fund</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Fund Equity</u>
General	\$(1,345)	\$	\$(1,345)
Special Revenue	(1,518)		(1,518)
Debt Service	(2,224)		(2,224)
Capital Projects	(4,885)		(4,885)
Enterprise	(1,354)		(1,354)
Internal Service	(1,553)		(1,553)
Trust and Agency	(108,425)	(1,210,956)	1,102,531

The Governmental Accounting Standards Board October 1997 issued Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", which establishes accounting and reporting standards for deferred compensation plans established in accordance with section 457 of the Internal Revenue Code. The County has not adopted the new standard for the current year but must adopt the standard for the fiscal year beginning July 1, 1999. The County has not determined the effect on the financial statement in the year of adoption.

**I. TRANSFER OF TRIAL COURT FINANCING TO THE STATE OF CALIFORNIA**

On September 13, 1997, the State of California passed the Trial Court Funding Act of 1997 with an effective date of January 1, 1998. The act provides for the transfer of budgetary responsibilities for trial court operations from the County to the State. The State, through a state appointed judicial council, will now be responsible for approving budgets for all trial courts in California. This act provides for trial courts to operate independently of the County Board of Supervisors and to contract with the County or other providers for services. Accordingly, trial courts are no longer considered under the jurisdictional authority of the County Board of Supervisors and are now accounted for as a separate agency. This change is reflected primarily as a reduction of salaries, services and supplies in the courts as shown in the "GENERAL FUND SCHEDULE OF REVENUES AND EXPENDITURES - (BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS".

## **APPENDIX C**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

The following summary discussion of selected features of the Trust Agreement, the Lease, the Sublease and the Assignment Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

#### **DEFINITIONS**

##### Additional Certificates

The term "Additional Certificates" means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

##### Additional Rental

The term "Additional Rental" means the additional rental payments payable by the County under and pursuant to the Sublease.

##### Administrative Expense Fund

The term "Administrative Expense Fund" means the fund by that name established in accordance with the Trust Agreement.

##### Assignment Agreement

The term "Assignment Agreement" means that certain Assignment Agreement, dated as of January 1, 1999, by and between the Corporation and the Trustee, as it may from time to time be amended.

##### Auditor and Controller

The term "Auditor and Controller" means the person holding the office of Chief Financial Officer/Auditor and Controller of the County, including any Acting or Interim Chief Financial Officer/Auditor and Controller.

##### Authorized Denominations

The term "Authorized Denominations" means \$5,000 or any integral multiple thereof.

### Base Rental Payment Fund

The term "Base Rental Payment Fund" means the fund by that name established in accordance with the Trust Agreement.

### Base Rental Payments

The term "Base Rental Payments" means the aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Sublease in the amounts and at the times set forth therein.

### Beneficial Owner

The term "Beneficial Owner" shall have the meaning set forth in the Continuing Disclosure Agreement.

### Business Day

The term "Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

### Certificate of the Corporation

The term "Certificate of the Corporation" means an instrument in writing signed by the President or the Treasurer of the Corporation.

### Certificate of the County

The term "Certificate of the County" means an instrument in writing signed by the Auditor and Controller.

### Certificate Reserve Fund

The term "Certificate Reserve Fund" means the fund by that name established in accordance with the Trust Agreement.

### Certificate Reserve Fund Requirement

The term "Certificate Reserve Fund Requirement" means, as of any date of calculation, an amount initially equal to \$73,115,000 but in no event less than the lesser of (i) maximum prospective annual Base Rental Payments with respect to Outstanding Certificates

and Additional Certificates to be made by the County under the Sublease in any Lease Year or (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate.

### Certificates

The term "Certificates" means the County of San Diego Certificates of Participation (1998 Downtown Courthouse Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

### Certificates of Participation Purchase Contract

The term "Certificates of Participation Purchase Contract" means that certain Purchase Contract, dated December 17, 1998, by and between the Purchaser and the County relating to the Certificates.

### Closing Date

The term "Closing Date" means January 7, 1999.

### Code

The term "Code" means the Internal Revenue Code of 1986, as amended.

### Continuing Disclosure Agreement

The term "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the County, the Dissemination Agent and the Trustee dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

### Corporation

The term "Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

### Cost of Issuance Fund

The term "Cost of Issuance Fund" means the fund by that name established in accordance with the Trust Agreement.

### Costs of Issuance

The term "Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Lease, the Sublease, the Assignment Agreement, the Escrow Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges;

market study fees; legal fees and expenses of counsel with respect to the lease of the Property and the refunding of the Prior Obligations; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee and the Escrow Agent including fees and expenses of their respective counsel; and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the refunding of the Prior Obligations, to the extent such fees and expenses are approved by the County.

### County

The term "County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

### Defeasance Securities

The term "Defeasance Securities" means any of the following:

1. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS");
2. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;
3. The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York, in book entry form;
4. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P;
5. Obligations issued or fully guaranteed by the following agencies which are backed by the full faith and credit of the United States:
  - a. U.S. Export-Import Bank  
Direct obligations or fully guaranteed certificates of beneficial ownership
  - b. Farmers Home Administration  
Certificates of beneficial ownership
  - c. Federal Financing Bank
  - d. General Services Administration  
Participation certificates

- e. U.S. Maritime Administration  
Guaranteed Title XI financing
- f. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
New Communities Debentures - U.S. government guaranteed debentures  
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

### **DTC**

The term "DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

### **Earnings Fund**

The term "Earnings Fund" means the fund by that name established in accordance with the Trust Agreement.

### **Escrow Agent**

The term "Escrow Agent" means State Street Bank and Trust Company of California, N.A..

### **Escrow Agreement**

The term "Escrow Agreement" means that certain Escrow Agreement, dated as of January 1, 1999, by and between the County and the Escrow Agent, providing for the refunding of the Prior Obligations.

### **Event of Default**

The term "Event of Default" means any occurrence or event specified in and defined by the Trust Agreement.

### **Financial Newspaper**

The term "Financial Newspaper" means The Wall Street Journal or The Bond Buyer or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is

customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

Fitch

The term "Fitch" means Fitch Investors Services, Inc., or any successor credit rating agency selected by the County.

Insurance Proceeds and Condemnation Awards Fund

The term "Insurance Proceeds and Condemnation Awards Fund" means the fund by that name established in accordance with the Trust Agreement.

Insurer

The term "Insurer" means Ambac Assurance Corporation.

Interest Fund

The term "Interest Fund" means the fund by that name established in accordance with the Trust Agreement.

Interest Payment Date

The term "Interest Payment Date" means May 1, 1999, and each November 1 and May 1 thereafter.

Interest Period

The term "Interest Period" means each period from and including one Interest Payment Date to but excluding the next following Interest Payment Date, except that the initial Interest Period will be the period from and including January 1, 1999, to but excluding May 1, 1999.

Lease

The term "Lease" means that certain Lease, dated as of January 1, 1999, with respect to the Property, by and between the County, as lessor, and the Corporation, as lessee, as originally executed and as it may be amended from time to time.

Lease Year

The term "Lease Year" means the period from each May 1 to and including the following April 30 during the term of the Sublease.



### Mandatory Sinking Account Payment

The term "Mandatory Sinking Account Payment" means the principal amount of any Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of a Supplemental Trust Agreement.

### Mandatory Sinking Account Payment Date

The term "Mandatory Sinking Account Payment Date," if applicable, means October 1 of each year set forth in a Supplemental Trust Agreement.

### Moody's

The term "Moody's" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the County.

### Municipal Bond Insurance Policy

The term "Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by the Insurer insuring the payment when due, in whole or in part, of the principal and interest with respect to the Certificates as provided therein.

### Opinion of Counsel

The term "Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

### Outstanding

The term "Outstanding" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates and Additional Certificates except--

- (1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;
- (3) Certificates and Additional Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and
- (4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant the Trust Agreement.

## Owner

The term "Owner" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

## Permitted Investments

The term "Permitted Investments" means any of the following to the extent then permitted by applicable laws and any investment policies of the County:

- (1) Any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agencies, to the extent such obligations are unconditionally guaranteed by the United States of America;
- (2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks or the Federal Home Loan Bank Board, or obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation; or guaranteed Small Business Administration notes or portions thereof;
- (3) Obligations of the State of California or of any state or any local agency of either thereof which are rated in one of the two highest long-term rating categories of Moody's and S&P;
- (4) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, with a maximum term of one year, which are eligible for purchase by the Federal Reserve System, or deposit accounts of any bank which has unsecured, uninsured and unguaranteed obligation ratings of "Prime-1" or "A3" or better by Moody's and "A-1+" by S&P;
- (5) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating at the time of investment therein as provided by Moody's and S&P;
- (6) Negotiable certificates of deposit issued by a nationally or state-chartered bank, or a state or federal savings and loan association or by a state-licensed branch of a foreign bank qualified as a depository of public funds in the State of California, including the Trustee or any affiliate thereof, which are fully insured by the Federal Deposit Insurance Corporation;
- (7) Any repurchase agreement or reverse repurchase agreement with members of the Association of Primary Dealers of United States Government

Securities or institutions insured by the Federal Deposit Insurance Corporation, which are rated at the time of investment therein not lower than A by Moody's and A by S&P, to the extent such agreements are fully collateralized at levels acceptable to the County by obligations described in clauses (1) and (2) of this definition, if the Trustee holds or appoints some intermediary bank or savings association to hold the collateral securing such agreement and the Trustee or its appointed agent has a first priority security interest in such collateral, and the repurchase agreement or reverse repurchase agreement is free and clear of any third party lien or claim;

- (8) For amounts less than \$10,000, interest-bearing demand or time deposits (including certificates of deposit) in a national or state-chartered bank, or state or federal savings and loan association in the State of California, fully insured by the Federal Deposit Insurance Corporation or any successor thereto, including the Trustee or any affiliate thereof;
- (9) Bonds or obligations issued by the County which are rated in one of the two highest long-term rating categories of Moody's and S&P, including bonds or obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;
- (10) Shares in money market funds investing in the securities and obligations as authorized by clauses (1) to (9), inclusive, of this definition and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630). To be eligible for investment pursuant to this clause (10) these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by S&P, or (2) have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by clauses (1) to (9), inclusive, of this definition and with assets under management in excess of \$500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this clause (10) shall not include any commission that these companies may charge;
- (11) Investment agreements (including guaranteed investment contracts), debt service fund float agreements and debt service reserve fund put agreements reviewed by and acceptable to Moody's and S&P;
- (12) The San Diego County Pooled Investment Fund; and
- (13) Any other investments which the County deems to be prudent investments and in which the County invests or directs the Trustee to invest, provided that such investments are approved by Moody's and S&P.

Any references to long-term rating categories in this definition shall not take into account any plus or minus sign or numerical modifiers.

**Prepayment Fund**

The term "Prepayment Fund" means the fund by that name established in accordance with the Trust Agreement.

**Principal Corporate Trust Office**

The term "Principal Corporate Trust Office" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the corporate parent of the Trustee in Los Angeles, California or such other office specified by the Trustee.

**Principal Fund**

The term "Principal Fund" means the fund by that name established in accordance with the Trust Agreement.

**Principal Payment**

The term "Principal Payment" means the principal amount of Certificates required to be paid on each Principal Payment Date.

**Principal Payment Date**

The term "Principal Payment Date" means May 1 of each year, commencing May 1, 1999.

**Property**

The term "Property" means the real property and all the improvements located or to be located thereon described in the Lease and in the Sublease and all the improvements located or to be located thereon (as the same may be changed from time to time by Removal or Substitution, as defined in the Sublease).

**Purchaser**

The term "Purchaser" means, collectively, Merrill Lynch & Co., Goldman Sachs & Co., Morgan Stanley & Co. Inc. and Ramirez & Co., Inc., as underwriters and purchasers of the Certificates pursuant to the Certificates of Participation Purchase Contract.

**Rebate Requirement**

The term "Rebate Requirement" means the Rebate Requirement as defined in the Tax Certificate.

### Record Date

The term "Record Date" means the close of business on the fifteenth day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

### Rental Payments

The term "Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental.

### Representation Letter

The term "Representation Letter" means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

### Reserve Fund Credit Facility

The term "Reserve Fund Credit Facility" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Certificate Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein.

### S&P

The term "S&P" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the County.

### Sublease

The term "Sublease" means that certain Sublease, dated as of January 1, 1999, with respect to the Property, by and between the County, as sublessee, and the Corporation, as sublessor, as originally executed and as it may be amended from time to time.

### Supplemental Trust Agreement

The term "Supplemental Trust Agreement" means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms thereof.

### Tax Certificate

The term "Tax Certificate" means that tax certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

### Term Certificates

The term "Term Certificates" means any Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

### Trust Agreement

The term "Trust Agreement" means that certain Trust Agreement by and among the Trustee, the County and the Corporation, dated as of January 1, 1999, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

### Trustee

The term "Trustee" means State Street Bank and Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

### Written Request of the County

The term "Written Request of the County" means an instrument in writing signed by the Auditor and Controller or other officers who are specifically authorized by resolution of Board of Supervisors of the County to sign or execute such a document on its behalf, as reflected in a Certificate of the County to such effect delivered to the Trustee.

## **TRUST AGREEMENT**

### **General**

The Trust Agreement sets forth the terms of the Certificates, the nature and extent of the security for the Certificates, various rights of the Owners of the Certificates, rights, duties and immunities of the Trustee and the rights and obligations of the County. Certain provisions of the Trust Agreement are summarized below. Other provisions are summarized in this Official Statement under the caption "THE CERTIFICATES." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

### **Security for Certificates**

Equal Security. In consideration of the acceptance of the Certificates by the Owners, the Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal, and premium, if any, represented by the Certificates which may be executed and delivered thereunder, subject to each of the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to security or otherwise of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided therein.

Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund. There is established a special fund designated as the "Base Rental Payment Fund" which

shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Certificates or Additional Certificates remain Outstanding. It is the intent of the parties the Trust Agreement that the Corporation shall not have any right, title, in or to the Base Rental Payments. In the event, however, that it should be determined that the Corporation has any right, title or interest in or to the Base Rental Payments, then the Corporation irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates. These pledges shall constitute a first and exclusive lien on the funds established the Trust Agreement and the Base Rental Payments in accordance with the terms the Trust Agreement subject in all events to the power of the County to cause the execution and delivery of Additional Certificates pursuant to the Trust Agreement which shall be on a parity with the Certificates and any Additional Certificates Outstanding.

All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments, the proceeds of rental interruption insurance and liquidated damages, if any, shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee has agreed to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to the Sublease or until such date as the Certificates and any Additional Certificates are no longer Outstanding; provided, however, and notwithstanding the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose under the Trust Agreement, and if the amount then in the Certificate Reserve Fund is at least equal to the Certificate Reserve Fund Requirement and there exists no Event of Default under the Trust Agreement, then amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Certificate Reserve Fund investment which provides for such payments.

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner provided in the Trust Agreement in the following respective funds, each of which the Trustee has agreed under the Trust Agreement to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Sublease or until such date as the Certificates and any Additional Certificates are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) Interest Fund. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Monies in the Interest Fund shall be used and withdrawn by the Trustee for the purpose of paying the interest represented by the Certificates and any Additional Certificates when due and payable.

(b) Principal Fund. The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Certificates and any Additional Certificates when due and payable at maturity or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) Prepayment Fund. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Sublease, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Prepayment Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest represented by the Certificates and any Additional Certificates to be prepaid.

#### **Certain Funds**

Certificate Reserve Fund. There is established in trust a special fund designated as the "Certificate Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. Moneys in the Certificate Reserve Fund shall be in the amount of the Certificate Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.



(iii) Monies on deposit in the Certificate Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Certificate Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Sublease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Sublease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Certificate Reserve Fund to the Certificate Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Certificate Reserve Fund shall be in excess of the Certificate Reserve Fund Requirement, the Trustee shall transfer such excess first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates, upon Written Request of the County, and thereafter to the Principal Fund. At the termination of the Sublease in accordance with its terms, any balance remaining in the Certificate Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct. For purposes of determining the amount on deposit in the Certificate Reserve Fund, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Certificate Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Certificate Reserve Fund satisfies the Certificate Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a pro rata portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve

Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Certificate Reserve Fund Requirement, in either case for deposit into the Certificate Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision thereof, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Certificate Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Certificate Reserve Fund prior to drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a pro rata basis, and (2) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Certificate Reserve Fund shall (y) in the event the Reserve Fund Credit Facility has been drawn upon, be paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment or (z) otherwise be transferred or deposited pursuant to the terms of the Trust Agreement as if no deposit or transfer to the Certificate Reserve Fund were required.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

Cost of Issuance Fund. There is established in trust a special fund designated as the "Cost of Issuance Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County. The County shall disburse moneys from the Cost of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance in accordance with the Tax Certificate. On or after May 1, 1999, the County shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement, then to the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates, and thereafter to the Trustee for deposit in the Principal Fund.

Acquisition and Construction Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained by it designated as the "Acquisition and Construction Fund." The County shall administer the Acquisition and Construction Fund as provided in the Trust Agreement.

The County shall hold the moneys in the Acquisition and Construction Fund and shall disburse such moneys therefrom to pay the costs of the Project. If, after completion of the Project, there shall remain any balance of money in the Acquisition and Construction Fund, all money so remaining shall be transferred first to the Reserve Account to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof.

Administrative Expense Fund. There is established under the Trust Agreement a special fund designated as the "Administrative Expense Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County.

Amounts in the Administrative Expense Fund shall be paid out from time to time by the County for reasonable and necessary operating expenses of the County relating to the Certificates including, without limitation, expenses incidentally incurred in connection with the purchase or prepayment of any Certificates, which expenses shall not include the payment of principal or interest with respect to any Certificates.

Amounts in the Administrative Expense Fund which the County at any time determines to be in excess of the requirements of such Administrative Expense Fund shall be transferred to the Trustee for deposit in the Principal Fund.

Earnings Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Earnings Fund." The County shall administer the Earnings Fund as provided in the Trust Agreement.

The County shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the County in trust and shall be kept separate and apart from all other funds and money held by the County. Pursuant to the Trust Agreement, all investment earnings on the funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account in accordance with the provisions of the Tax Certificate.

Upon each transfer, any amount remaining in the Earnings Fund or any amount on deposit in the Excess Earnings Account which exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate shall be transferred to the Base Rental Payment Fund by the County. Except as set forth in the proceeding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall receive from the County all moneys which may become due and payable under any insurance policies obtained pursuant to the Sublease and shall apply the proceeds of such insurance as provided in the Sublease. The Trustee shall not be responsible for the sufficiency of any insurance required by the Sublease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County or the Corporation. Delivery to the Trustee of the schedule of insurance policies under the Sublease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the County deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the County to the Trustee pursuant to the Sublease.

Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Sublease, the County and the Corporation shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the Sublease. The County shall hold said proceeds in a separate fund to be established and maintained by the County and designated the "Insurance Proceeds and Condemnation Awards Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The County shall permit withdrawals of said proceeds from time to time upon making a written record of such payment, stating that the County or the Corporation has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be treated by the County as prepaid Base Rental Payments and transferred to the Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Property and thereupon shall cause said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement. Notwithstanding any other provision in the Trust Agreement, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates and Additional Certificates not being prepaid.

The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement.

**Title Insurance.** Proceeds of any policy of title insurance received by the County in respect of the Property shall be applied and disbursed by the County as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Property and will not result in an abatement of Rental Payments payable by the County under the Sublease, such proceeds shall be deposited first in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Certificate Reserve Fund to the extent that the amount therein is less than the Certificate Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County with respect

to the Certificates, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Rental Payments payable by the County under the Sublease, then the County shall immediately transfer such proceeds to the Trustee for deposit in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates and Additional Certificates in the manner provided the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established the under Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the written request of the County Treasurer only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (10) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments shall be deposited in the Earnings Fund and are to be transferred as provided in the Trust Agreement. For purposes of determining the amount on deposit in any fund or account established under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

### **Additional Certificates**

Execution and Delivery of Additional Certificates. In addition to the County's Certificates of Participation (1998 Downtown Courthouse Refunding), the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments (which Additional Certificates shall not use the numbers "1998" in the title thereof). The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Corporation shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease or the Sublease;

(b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement;

(c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(f) The Lease and the Sublease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; provided, however, that no such amendment shall be made such that the sum of Base Rental Payments, including any such amendment, plus Additional Rental in any year shall be in excess of the annual fair rental value of the Property (without taking into account the use of the proceeds of any Additional Certificates executed and delivered in connection therewith) and evidence of the satisfaction of this condition shall be made by a Certificate of the County; and

(g) Said Supplemental Trust Agreement shall provide Principal Payment Dates and/or mandatory prepayments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Base Rental Payments are due.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Lease and the Sublease required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the County and the Corporation; (3) that said amendments to the Lease and the Sublease and the Supplemental Trust Agreement, when duly executed by the County and the Corporation, will be valid and binding obligations of the County and the Corporation; (4) that said amendments to the Lease and the Sublease have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to the Lease and the Sublease do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that the requirements of the Trust Agreement have been met, which shall include a Certificate by the County as to the annual fair rental value of the Property, without giving effect to the execution and delivery of the Additional Certificates and to the use of proceeds received therefrom;

(c) Certified copies of the resolutions of the County and the Corporation, authorizing the execution of the amendments to the Lease and Sublease required the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to the Lease and Sublease required by the Trust Agreement;

(e) Certified copies of the policies of insurance required by the Sublease or certificates thereof, which shall evidence that the amounts of the insurance required under the Sublease have been increased, if necessary, to cover the amount of such Additional Certificates; and

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in the Sublease.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

## **Selected Covenants**

**Other Liens.** The County will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity thereof and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

**Prosecution and Defense of Suits.** The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

**Accounting Records and Statements.** The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates and Additional Certificates or his agent duly authorized in writing. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

**Excess Earnings Account of the Earnings Fund; Tax Covenants.** Pursuant to the Trust Agreement, the County shall establish and maintain an account separate from any other fund or account established and maintained thereunder designated as the "Excess Earnings Account." There shall be deposited in the Excess Earnings Account such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the County in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding



defeasance of the Certificates and the Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained therein, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively by the Trust Agreement and by the Tax Certificate. The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate.

Any funds remaining in the Excess Earnings Account after payment in full of all of the Certificates and any Additional Certificates and after payment of any amounts described in the Trust Agreement, shall be withdrawn by the County to be used for any lawful purpose.

Continuing Disclosure. The County and the Trustee, in its capacity as trustee and dissemination agent, covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Purchaser or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Owner or Beneficial Owner of Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County or the Trustee, as the case may be, to comply with its obligations under the Trust Agreement.

### **Events of Default and Remedies**

Events of Default. The following events shall be Events of Default:

- (a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;
- (b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;
- (c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; provided, however, that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or
- (d) an event of default shall have occurred and be continuing under the Sublease.

Action on Default. In each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates and any Additional Certificates at the time Outstanding (subject to the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Lease, to the Corporation under the Sublease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates and any Additional Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Property after a default by the County pursuant to the Sublease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee the Sublease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement;  
and

(b) to the payment of all amounts then due as interest with respect to the Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates and any Additional Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates and Additional Certificates.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Certificates and Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing contained in the Trust Agreement shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

### **The Trustee**

Employment of the Trustee. The County and the Corporation appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided therein and subject to the conditions and terms thereof. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment referred to in the Trust Agreement and accepts the rights and obligations of the Trustee provided therein, subject to the conditions and terms therein. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing), but

any such successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County, the Corporation and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

#### **Amendment of or Supplement to Trust Agreement**

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates and Additional Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or Additional Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment to the Trust Agreement or supplement thereto without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the provisions of the Trust Agreement relating to amendments and supplements without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by

law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed therein by the County or the Corporation, or to surrender any right or power reserved therein to or conferred therein on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Property as may be requested from time to time by the County in accordance with the Sublease; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising thereunder which the County or the Corporation may deem desirable or necessary and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

### **Defeasance of Certificates**

Discharge of Certificates and Trust Agreement. If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated therein and in the Trust Agreement, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case said Certificates or Additional Certificates are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates or Additional Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as

verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on, said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant the Trust Agreement, a notice to the Owners of such Certificates or Additional Certificates and to the securities depositories and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee pursuant to the Trust Agreement nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; provided that Defeasance Securities deposited with the Trustee pursuant to the Trust Agreement may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates and Additional Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to the Trust Agreement, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge.

After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Sublease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the

interest or principal represented by any of the Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal represented by such Certificates or Additional Certificates have become payable, shall at the Written Request of the County be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal represented by such Certificates or Additional Certificates; provided, however, that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

## **Insurance**

Payments from Municipal Bond Insurance Policy. Payment of the principal and interest with respect to the Certificates shall be insured by the Municipal Bond Insurance Policy provided by the Insurer. So long as the Municipal Bond Insurance Policy is in full force and effect and the Insurer is not in default thereunder, the County and the Trustee agree to comply with the following provisions by which the Insurer will pay any principal or interest payment due and payable with respect to the Certificates but for which there are insufficient funds for the payment thereof:

(a) At least one day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds in the funds and accounts maintained by it under the Trust Agreement to pay the principal or interest with respect to the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such deficiency will be as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one day prior to an Interest Payment Date, the Insurer will make payments of principal or interest with respect to the Certificates on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to the United States Trust Company of New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books for the Certificates maintained by the Trustee and all records relating to the funds and accounts maintained by the Trustee under the Trust Agreement.

(c) The Trustee shall provide the Insurer and the Insurance Trustee with a list of the Owners of the Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners of the Certificates entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal represented

by the Certificates surrendered to the Insurance Trustee by the Owners of the Certificates entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of the Certificates entitled to receive the payment of principal or interest with respect to the Certificates from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal or interest with respect to the Certificates which has become Due For Payment (as defined in the Municipal Bond Insurance Policy) and which is made to such Owner by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify the Insurer and, at the time the Insurer is notified, notify all Owners of the Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee and subsequently recovered from such Owner and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under the Trust Agreement, the Insurer shall, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon surrender of the Certificates by the Owners thereof, together with proof of the payment of principal thereof.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Municipal Bond Insurance Policy, such Certificates shall remain Outstanding for



all purposes, not be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and pledge of the Base Rental Payment Fund and the Certificate Reserve Fund and all covenants, agreements and other obligations of the County to the Owners of the Certificates shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Consent of Insurer. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, the Insurer's consent shall be required for the initiation or approval of any action which requires the consent of the Owners. Notwithstanding anything to the contrary in the Trust Agreement, the rights given to the Insurer under the Trust Agreement to give consents, directions and approvals shall not be effective so long as it is in default of its obligations under the Municipal Bond Insurance Policy.

Exercise of Remedies Upon Default. Notwithstanding anything to the contrary in the Trust Agreement, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, upon the occurrence and continuance of an Event of Default as defined in the Trust Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

## **LEASE**

### **General**

The Lease provides the terms and conditions of the lease of the Property by the Corporation. Certain provisions of the Lease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Lease.

### **Property**

The County leases to the Corporation and the Corporation hires from the County, on the terms and conditions set forth in the Lease, those certain parcels of real property and improvements thereon or to be located thereon situated in the State of California, County of San Diego, City of San Diego, described in Exhibit A of the Lease (the "Property").

### **Term**

The term of the Lease commenced on the Closing Date and shall end on the Expiry Date, unless such term is sooner terminated or is extended as provided in the Lease. If prior to the Expiry Date, all Base Rental Payments under the Sublease shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Lease shall end ten (10) days thereafter or ten (10) days after written notice by the County to the Corporation in accordance with the Lease, whichever is earlier.

If the Sublease is extended beyond the Expiry Date, pursuant to the terms thereof, the Lease shall also be extended to the day following the date of termination of the Sublease.

## **SUBLEASE**

### **General**

The Sublease provides the terms and conditions of the sublease of the Property by the County. Certain provisions of the Sublease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Sublease.

### **Property**

Lease of the Property. The Corporation leases to the County, and the County rents and hires from the Corporation, the Property on the conditions and terms set forth in the Sublease. The County has agreed and covenanted that during the term of the Sublease, except as therein provided, it will use the Property for public purposes so as to afford the public the benefits contemplated and so as to permit the Corporation to carry out its agreements and covenants contained in the Sublease and in the Trust Agreement, and the County further has agreed and covenanted that during the term of the Sublease that it will not abandon or vacate the Property.

Prohibition Against Encumbrance or Sale. The County and the Corporation will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Certificates as contemplated by the Sublease. The County and the Corporation will not sell or otherwise dispose of the Property or any property essential to the proper operation of the Property, except as otherwise provided in the Sublease. Notwithstanding anything to the contrary contained in the Sublease, the County may assign, transfer or sublease any and all of the Property or its other rights under the Sublease, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Corporation under the Sublease, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the Sublease, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in the Sublease, (d) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Property for all purposes shall be first allocated to the Sublease, as the same may be amended from time to time before or after any such assignment, transfer or sublease and (e) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows reentry upon the Property unless concurrently with granting such remedy the same shall be also granted under the Sublease by an amendment to the Sublease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the County shall at any time during the term of the Sublease cause any improvements to the Property to be constructed or materials to be supplied in or upon or attached to the Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Property and shall keep the Property free of any and all liens against the Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the

Property or the Corporation's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Corporation and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Property or the Corporation's interest therein.

**Substitution or Removal of Property.** The County may amend the Sublease and the Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property, upon compliance with all of the conditions set forth below. After a Substitution or Removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Sublease and under the Lease.

No Substitution or Removal shall take place under the Sublease until the County delivers to the Corporation and the Trustee the following:

- (1) A Certificate of the County containing a description of all or part of the Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;
- (2) A Certificate of the County (A) stating that the annual fair rental value of the Property after a Substitution or Removal, in each year during the remaining term of the Sublease, is at least equal to the maximum annual Base Rental Payments attributable to the Property prior to said Substitution or Removal, as determined by the County on the basis of an appraisal of the Property after said Substitution or Removal conducted by a member of the Appraisal Institute of America (MAI) designated by the County; (B) demonstrating that the useful life of the Property after Substitution or Removal equals or exceeds the remaining term of the Sublease; and (C) stating that the Property after a Substitution or Removal is as essential to the operations of the County as was the Property immediately prior to such Substitution or Removal;
- (3) An Opinion of Counsel to the effect that the amendments to the Sublease and to the Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation enforceable in accordance with their terms;
- (4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments, insuring the County's leasehold interest in the Substituted Property (except any

portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates and any Additional Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;

(7) Evidence that the County has complied with the covenants contained in the Sublease with respect to the Substituted Property; and

(8) Evidence that the Substitution or Removal, in and of itself, has not or will not cause a downgrade or withdrawal of the then existing credit ratings on the Certificates and any Additional Certificates.

### **Term of Sublease**

Commencement of the Sublease. The effective date of the Sublease is the Closing Date, and the term of the Sublease shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Sublease. If on the Expiry Date, the rental payable under the Sublease shall not be fully paid and all Certificates and Additional Certificates shall not be fully paid and retired, or if the rental payable under the Sublease shall have been abated at any time and for any reason, then the term of the Sublease shall be extended until ten days after the rental payable under the Sublease shall be fully paid and all Certificates and Additional Certificates shall be fully paid, except that the term of the Sublease shall in no event be extended beyond May 1, 2033. If prior to the Expiry Date, the rental payable under the Sublease shall be fully paid and all Certificates and Additional Certificates shall have been fully paid, or deemed fully paid, in accordance with the Trust Agreement, the term of the Sublease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Sublease shall be fully paid and all Certificates and Additional Certificates have been fully paid, whichever is earlier, and the Sublease shall thereupon terminate.

### **Rental Payments**

Base Rental. The County shall pay to the Corporation rental under the Sublease as Base Rental Payments with respect to the Property in the amounts set forth in the Base Rental Payment Schedule attached to the Sublease as Exhibit B, a portion of which Base Rental Payments shall constitute interest. Notwithstanding the dates designated for the payment of the Base Rental Payments on such Exhibit B attached to the Sublease (except for the payment due on April 15, 1999), all Base Rental Payments due in any Fiscal Year shall be due and payable in one

sum on July 5 of each year (or the next Business Day if July 5 does not fall on a Business Day), commencing on July 5, 1999. Failure of the County to comply with the provisions of this section shall constitute an event of default under the Sublease. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the County under the Sublease. The obligation to make the Base Rental Payments set forth on Exhibit B attached to the Sublease shall arise as of the Closing Date. Notwithstanding the foregoing, each Base Rental Payment shall be paid by wire transfer to the Corporation or its assignee not later than one Business Day preceding its due date.

Additional Rental. The County shall also pay, as rental under the Sublease in addition to the Base Rental Payments, to the Corporation or the Trustee, as provided in the Sublease, such amounts ("Additional Rental") in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Sublease or the assignment thereof, the Trust Agreement or the respective interests in the Property and the lease of the Property by the Corporation to the County under the Sublease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates or any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Certificates, any Additional Certificates or the Trust Agreement.

The foregoing Additional Rental shall be billed to the County by the Corporation or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Corporation, the Trustee or the Trustee on behalf of the Corporation for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation has issued and may issue bonds and may enter into leases to finance facilities other than the Property. The administrative costs of the Corporation shall be allocated among said facilities and the Property, as hereinafter in this paragraph provided. Any taxes levied against the Corporation with respect to the Property, the fees of the Trustee, and any other expenses directly attributable to the Property shall be included in the Additional Rental payable under the Sublease. Any taxes levied against the Corporation with respect to real property other than the Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Property shall not be included in the administrative costs of the Property and shall not be paid from the Additional Rental payable under the Sublease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Property, in accordance with sound accounting practice. In the event of any

question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Corporation in making any determination that costs are payable as Additional Rental under the Sublease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Property.

Consideration. Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Sublease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Property. On the Closing Date, the County shall deliver a certificate to the Corporation and the Trustee which shall set forth the annual fair rental value of the Property. The parties to the Sublease have agreed and determined that the annual fair rental value of the Property is not less than the maximum Base Rental Payments payable under the Sublease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Property, other obligations of the parties under the Sublease, the uses and purposes which may be served by the improvements on the Property and the benefits therefrom which will accrue to the County and the general public.

The parties to the Sublease acknowledge that the parties thereto may amend the Sublease from time to time to increase the Base Rental Payments payable under the Sublease so that Additional Certificates may be executed and delivered pursuant to the Sublease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained the Sublease, the Sublease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to the prorated portion of Outstanding Certificates and Additional Certificates secured by the Property in any year is in excess of the annual fair rental value of the Property and other land and improvements leased to the County under the Sublease.

Payment; Credit. Each installment of Base Rental Payments payable under the Sublease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Corporation shall designate. Any such installment of rental accruing under the Sublease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Sublease, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Sublease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Sublease or be refunded at the time of such determination. Amounts required to be deposited by the County

with the Trustee pursuant to the Sublease on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

**Annual Budgets; Reporting Requirements.** The County has covenanted under the Sublease to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Sublease in its operating budget for each fiscal year commencing after the date of the Sublease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments. In addition, to the extent permitted by law, the County has covenanted under the Sublease to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Sublease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget.

**Application of Rental Payments.** All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Sublease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Sublease and thereafter to all Additional Rental due under the Sublease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Sublease.

**Rental Abatement.** Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Certificate Reserve Fund, (b) amounts received in respect of use and occupancy insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Property or other rights under the Sublease, as permitted by the Sublease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Property shall first be allocated to the Sublease as provided therein. Any abatement of rental payments pursuant to the Sublease shall not be considered an Event of Default as defined in the Sublease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Sublease by virtue of any such interference and the Sublease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Sublease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild the Property from the proceeds of insurance, if any, the

County has agreed under the Sublease to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Property.

Prepayment of Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Sublease, all or any portion of the components of Base Rental Payments relating to any portion of the Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates, with respect to the portion of the Property so prepaid.

The County may prepay, from any source of available moneys pursuant the Trust Agreement, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Sublease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Certificates and any Additional Certificates unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to the Sublease, at least 45 days before the prepayment date the County shall give written notice to the Corporation and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Corporation and the Trustee.

Additional Certificates. In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; provided that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Sublease, providing for an increase in the Base Rental Payments to be made under the Sublease subject to the limitations set forth in therein.

### **Certain Covenants**

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility or through a program of self-



insurance or self-funding to the extent specifically permitted in the Sublease, all coverage on the Property required by the Sublease. Such insurance shall consist of :

(1) A policy or policies of insurance against loss or damage to the Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Property and, in the case of a policy covering more than the Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations and Certificates which are Outstanding; provided that the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake. Such insurance may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss (except for flood, in which case the deductible may not exceed \$250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (1). Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Property in an amount not less than \$50,000,000 per occurrence; provided, however, that the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to \$50,000,000 per occurrence in the aggregate for all properties. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County of San Diego which may be limited in amount to \$50,000,000 per occurrence in the aggregate for all insureds. Otherwise conforming policies satisfying the requirements of this paragraph (2) may

provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa.

(3) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) or (2) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Sublease for a period adequate to cover the period of repair or replacement, but in no event shall such policy be in an amount less than two years' Base Rental Payments for the Property; provided that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) or (2) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (3) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1) or (2) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (1) or (2), as the case may be, for the same occurrence, and vice versa.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided the Sublease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the Sublease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1) or (2) above shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1) or (2) above shall be applied as provided in the Sublease. The net proceeds, if any, of the insurance policy described in paragraphs (1) and (2) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (3) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy provided for in the Sublease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraph (1) above, the County may provide a self-insurance or self-funding method or plan of protection for any part or all of the requirements for such insurance and, through such a plan or method, provide for deductible or retention amounts greater than those

contemplated by paragraph (1) above. Any such self-insurance or self-funding maintained by the County pursuant to the foregoing shall comply with the following terms:

(i) the self-insurance or self-funding program shall be approved by an Insurance Consultant;

(ii) the self-insurance or self-funding program shall include a reasonable claims reserve fund out of which each self-insured or self-funded claim and any deductible amount authorized by paragraph (1) above shall be paid; prior to the end of the first Lease Year, the adequacy of each such fund shall be evaluated by an Insurance Consultant who shall also evaluate the appropriateness of the reserving methods and practices employed in establishing and maintaining each such fund; any deficiencies in any claims reserve fund shall be remedied in accordance with the recommendation of the Insurance Consultant and any recommended changes in the reserving methods or practices shall be adopted in accordance with the recommendation of the Insurance Consultant; after the first Lease Year, at least annually and not later than January 31 of each year that is a Lease Year, the County shall provide to the Trustee a report by either the independent accountants which provide the audit report on the County's annual audited financial statements or by an Insurance Consultant, as selected by the County, as to the appropriateness of the reserving and self-funding methods and practices employed by the County in funding the claims funds, and any changes recommended by the report shall promptly be implemented by the County;

(iii) the claims reserve fund shall be held in a separate fund by the County but may be invested as other County funds are invested in the San Diego County Pooled Investment Fund; and

(iv) in the event the self-insurance or self-funding program shall be discontinued, the soundness of its claim and deductible or retention reserve fund, as determined by the Insurance Consultant, shall be maintained.

The County shall file a Certificate of the County with the Trustee and the Insurer not later than January 31 of each year certifying that the insurance policies required by the Sublease are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Sublease requires to be so endorsed. The County will provide the Insurer with copies of such insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Sublease.

**Title Insurance.** The County has agreed and covenanted under the Sublease to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Property with liability in the aggregate amount equal to the principal amount of Certificates secured by the Property. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Property subject only to such exceptions as do not materially affect the County's right to the use and occupancy of the Property.

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Sublease (a) the Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Property or any portion thereof or the estate of the County or the Corporation in the Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Corporation will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; provided, that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of principal and interest represented by Outstanding Certificates and Additional Certificates attributable to the portion of the Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement. Notwithstanding any other provision in the Sublease, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates and Additional Certificates not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Property so that the fair rental value of the Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Certificates and Additional Certificates, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary, but in no event more than the net proceeds available from any insurance claim or condemnation award described in the Sublease, to effect such repair, rebuilding or replacement or prepayment; provided that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Sublease.

Tax Covenants. The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Certificates or any Additional Certificates to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Certificates and any Additional Certificates and such

other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; provided, that if the County shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions the Sublease. In the event that at any time the County is of the opinion that for purposes of the Sublease it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

To the ends covenanted in the Sublease, the County specifically has agreed to ensure that the following requirements are met:

(1) No more than five percent of the Property (determined both on the basis of space and on the basis of cost) shall be used in the trade or business of one or more nongovernmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code).

(2) The County will not invest or allow to be invested proceeds of the Sublease, the Certificates or any Additional Certificates at a yield in excess of the yield on the Sublease, the Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(3) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

### **Events of Defaults and Remedies**

Defaults. The following events shall be "Events of Default" under the Sublease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Sublease, any one or more of the following events:

(1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Sublease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Sublease shall not constitute an Event of Default;

(2) The County shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Sublease; or

(3) The County shall breach any other terms, covenants or conditions contained in the Sublease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to

an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the Events of Default specified in the Sublease, it shall be lawful for the Corporation or its assignee, subject to the terms of the Sublease, to exercise any and all remedies available or granted to it pursuant to law or under the Sublease.

The Corporation or its assignee, in addition to all other rights and remedies it may have at law, shall have the option, without terminating the Sublease, to collect each installment of rent as it becomes due and enforce any other term or provisions of the Sublease to be kept or performed by the County; provided, however, that the Corporation or its assignee may not exercise any right of entry upon or repossession of the Property. Upon the occurrence of an Event of Default, the Corporation or its assignee must thereafter maintain the Sublease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Property, regardless of whether or not the County has abandoned the Property; **THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE SUBLEASE OR OTHERWISE.** In such event, the County shall remain liable and has agreed to keep or perform all covenants and conditions contained in the Sublease to be kept or performed by the County and, to pay the rent to the end of the term of the Sublease and further has agreed to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Sublease (without acceleration).

The Corporation expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Sublease, if the County's interest in the Sublease or any part thereof assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Sublease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Property or any portion thereof (except as permitted by the Sublease); then in each and every such case the County shall be deemed to be in default under the Sublease.

Neither the County nor the Corporation shall be in default in the performance of any of its obligations under the Sublease (except for the obligation to make Base Rental Payments pursuant to the Sublease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County of the Corporation, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

The County and Corporation and its successors and assigns shall honor the exclusive rights of the County to use the Property.

#### **Amendments to Sublease**

The Sublease may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; provided, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment to the Sublease. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, the Insurer shall receive written notice, at least thirty days in advance of soliciting consents of Owners, with respect to each amendment of the Sublease requiring the consent of Owners.

The Sublease and the rights and obligations of the Corporation and the County thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Sublease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the Sublease to or conferred therein on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Sublease or in regard to questions arising thereunder which the Corporation or the County may deem desirable or necessary and not inconsistent with the terms of the Sublease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Sublease;

(d) to facilitate the issuance of Additional Certificates as provided in the Sublease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

## **Discharge of County**

Upon the payment of all Base Rental Payments and Additional Rental payable under the Sublease, all of the obligations of the County thereunder shall thereupon cease, terminate and become void and shall be discharged and satisfied; provided, however, if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Sublease pursuant to the Trust Agreement, then the obligation of the County under the Sublease to make Base Rental Payments thereunder shall continue in full force and effect until the Outstanding Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the Sublease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

## **ASSIGNMENT AGREEMENT**

The Corporation will assign its rights to receive Base Rental Payments from the County under the Sublease to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement, the terms of which are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Assignment Agreement.

### **Assignment**

The Corporation unconditionally grants, transfers and assigns to the Trustee, without recourse, (i) all right, title and interest of the Corporation as lessee under the Lease, (ii) all rights of the Corporation to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Sublease for the benefit of the Owners of the Certificates, (iii) all rents, profits and products from the Property to which the Corporation has any right or claim whatsoever under the Sublease, (iv) the right to take all actions and give all consents under the Sublease, (v) the right of access more particularly described in the Sublease and (vi) any and all other rights and remedies of the Corporation in the Sublease as lessor thereunder for the purpose of (a) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement; and (b) performing and discharging each agreement, covenant and obligation of the County contained in the Sublease and in the Trust Agreement.

### **Acceptance**

The Trustee accepts the assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.



## **Conditions**

The Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. The Trustee shall not be responsible for the accuracy of the recitals in the Assignment Agreement. The Trustee is entering into the Assignment Agreement solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not responsible for the duties or obligations of the Corporation under the Lease or the Sublease or for any recitals, covenants, representations or warranties of the Corporation thereunder.

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## APPENDIX D

### BOOK-ENTRY SYSTEM

#### General

Purchasers of beneficial ownership interests in the Certificates will not receive certificates representing their interests in the Certificates purchased. The Underwriters will confirm original issuance purchases with statements containing certain terms of the Certificates purchased.

**The following information concerning DTC and DTCs book-entry system has been obtained from sources the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.**

The Certificates will be held by DTC as securities depository. The ownership of one fully registered Certificate for each maturity of Certificates, each in the aggregate principal amount of such maturity, is registered in the name of Cede & Co., as nominee for DTC. DTC, an automated clearinghouse for securities transactions, will act as securities depository for the Certificates. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Certificates may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the Certificates as nominees will not receive certificated Certificates, but each such DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the Certificates, which will be confirmed in accordance with DTC's standard procedures. Each such person for whom a DTC Participant acquires an interest in the Certificates, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have notices of prepayment, or all other communications of the County to DTC which may affect such persons, forwarded in writing by such DTC Participant and to have notifications made of all payments of principal of or interest on his beneficial interest. NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE CERTIFICATES IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR PREPAYMENT PRICE OF OR INTEREST REPRESENTED BY THE CERTIFICATES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO

CERTIFICATE HOLDERS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL PREPAYMENT OF THE CERTIFICATES; OR ANY OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

The County and the Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Certificates registered in its name for the purposes of payment of the principal or interest represented by the Certificates, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Certificates, or other action to be taken by registered owners and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Interest and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants or the Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE CERTIFICATES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES.

#### **Discontinuance of DTC Services**

In the event (i) DTC, including any successor as securities depository for the Certificates, determines not to continue to act as securities depository for the Certificates; (ii) DTC shall no longer so act and gives notice to the Trustee of such determination, DTC services will be discontinued. If the County determines to replace DTC with another qualified securities depository, the County shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each of the maturities of the Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository, or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository as are not inconsistent with the terms of the Trust Agreement. If the County fails to identify another qualified securities depository to replace DTC then the Certificates shall no longer be restricted to being registered in the Certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the County, in accordance with the Trust Agreement.

## APPENDIX E

### FORM OF LEGAL OPINION

*Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel proposes to issue their approving opinion in substantially the following form:*

[Date of Delivery]

County of San Diego  
1600 Pacific Highway  
San Diego, California 92101

\$73,115,000  
County of San Diego  
Certificates of Participation  
(1998 Downtown Courthouse Refunding)  
(Final Opinion)

Ladies and Gentlemen:

We have acted as Special Counsel in connection with the execution and delivery of \$73,115,000 aggregate principal amount of County of San Diego Certificates of Participation (Downtown Courthouse Refunding) (the "Certificates"). In such connection, we have reviewed a lease, dated as of January 1, 1999 (the "Lease"), between the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"), a sublease, dated as of January 1, 1999 (the "Sublease"), between the County and the Corporation, a trust agreement, dated as of January 1, 1999 (the "Trust Agreement"), among State (the "Trustee"), the County and the Corporation, a tax certificate of the County, dated as of the date hereof (the "Tax Certificate"), an assignment agreement, dated as of January 1, 1999 (the "Assignment Agreement"), between the Corporation and the Trustee, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Trustee, the Corporation and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Lease, the Sublease, the Tax Certificate, the Assignment Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Sublease) may be taken or omitted under the circumstances and subject to the

terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest portion of any Base Rental Payment if any such changes occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease, the Sublease, the Trust Agreement, the Tax Certificate and the Assignment Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of Base Rental Payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Lease, the Sublease, the Trust Agreement, the Tax Certificate and the Assignment Agreement and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject the lien of the Sublease, the Lease or the Trust Agreement or the Assignment Agreement or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The County is a political subdivision organized and existing under and by virtue of the Constitution and laws of the State of California.
2. The Lease, the Sublease and the Trust Agreement have been duly executed and delivered by the County and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the County.

3. The obligation of the County to make the Base Rental Payments during the term of the Sublease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor, and does not constitute a debt of the County or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State of California is obligated to levy or pledge any form of taxation or for which the County or the State of California has levied or pledged any form of taxation.

4. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

5. The portion of each Base Rental Payment designated as and constituting interest paid by the County under the Sublease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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## **APPENDIX F**

### **FORM OF CERTIFICATE INSURANCE POLICY**

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# Ambac

## Municipal Bond Insurance Policy

Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10004  
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

### Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

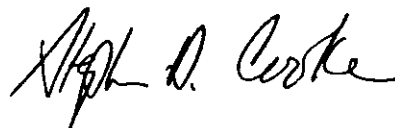
As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer



Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10004  
Telephone: (212) 668-0340

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative

**Ambac Assurance Corporation**

President



Secretary

Authorized Representative



